

CORPORATE PROFILES

K MART/WAL-MART/TARGET

Wal-Mart Shoppers Are More Satisfied Than Shoppers at K mart or Target

How shoppers rate various store characteristics
Mean ratings on scale of 1 to 9 (9 = outstanding)

	K mart	Wal-Mart	Target
Finding Things You Want to Buy	6.79	7.34	7.04
Finding Good Quality Merchandise	6.62	7.34	6.99
Prices	7.17	7.67	7.34
Helpful and Friendly Store Personnel	6.36	7.09	6.16

Source: Leo J. Shapiro & Associates/DSN, December 1987

Target Appears More Resistant to Competition

Mean dollars spent at the store during the past year

Competition in Market	K mart	Wal-Mart	Target
Alone	\$257	\$435	\$304
Only K mart	—	370	236
Only Wal-Mart	261	—	527
Only Target	164	299	—
Both Other Chains	178	253	294

Source: Leo J. Shapiro & Associates/DSN, December 1987

The Big Three Discounters Race For Dominance

(Continued from page 54)
fewer households in its trading areas, succeeds in getting an annual spending average of \$297 from its customers. K mart, which does business with more households in its areas than Target and has about the same penetration as Wal-Mart, averages \$234 per year from its customers.

Shoppers at Wal-Mart are more satisfied with the store than are shoppers at Target or K mart. They have a higher opinion of the merchandise, are more confident of finding what they want, and feel that store employees are friendlier and more helpful.

Few 'Protected' Markets

Despite their tradition of turf (Wal-Mart in small towns and Target in big cities), few Wal-Mart and Target stores operate in "protected" markets, that is, markets without one of the other Big Three chains in it. Only 20 percent of households with a Target in their area do not also have the choice of a K mart or a Wal-Mart in their area. The comparable percentage is 19 percent for households with a Wal-Mart in their area.

K mart is more protected, with 53 percent of the households it serves not having a Target or Wal-Mart store available. But, of course, this is because K mart is a national chain while Target and Wal-Mart are still mainly regional. In areas where K mart does not face one of the other Big Three discounters, it has other regional competitors.

When the three chains compete with each other, annual expenditures decline. For example, when there is no K mart or Target in the area, Wal-Mart shoppers spend \$435 annually; this drops to \$355 when one of the other chains are in the area and to \$253 when both are in the area. These declines occur for K mart and to a much lesser extent for Target. Target appears to be less affected by competition from either K mart or Wal-Mart than either of the other two. This resistance to competition is likely a result of its stronger clothing position, its strong reputation for price, quality and the customers' ability to find what they are looking for.

At 25, the three chains are likely to continue to prosper if they don't keep too close company. K mart is the only one that has succeeded in becoming a universal retailer in America, but it does so at the cost of surrendering superiority in many markets in which it operates. K mart does not achieve the kind of dominance it would like when it faces Target and Wal-Mart, and perhaps other regionals as well. That may also be the fate of Wal-Mart if it sets its sights on America as has K mart.

But, with plenty of territory left to exploit on its traditional turf, Wal-Mart is not compelled to follow in K mart's path.



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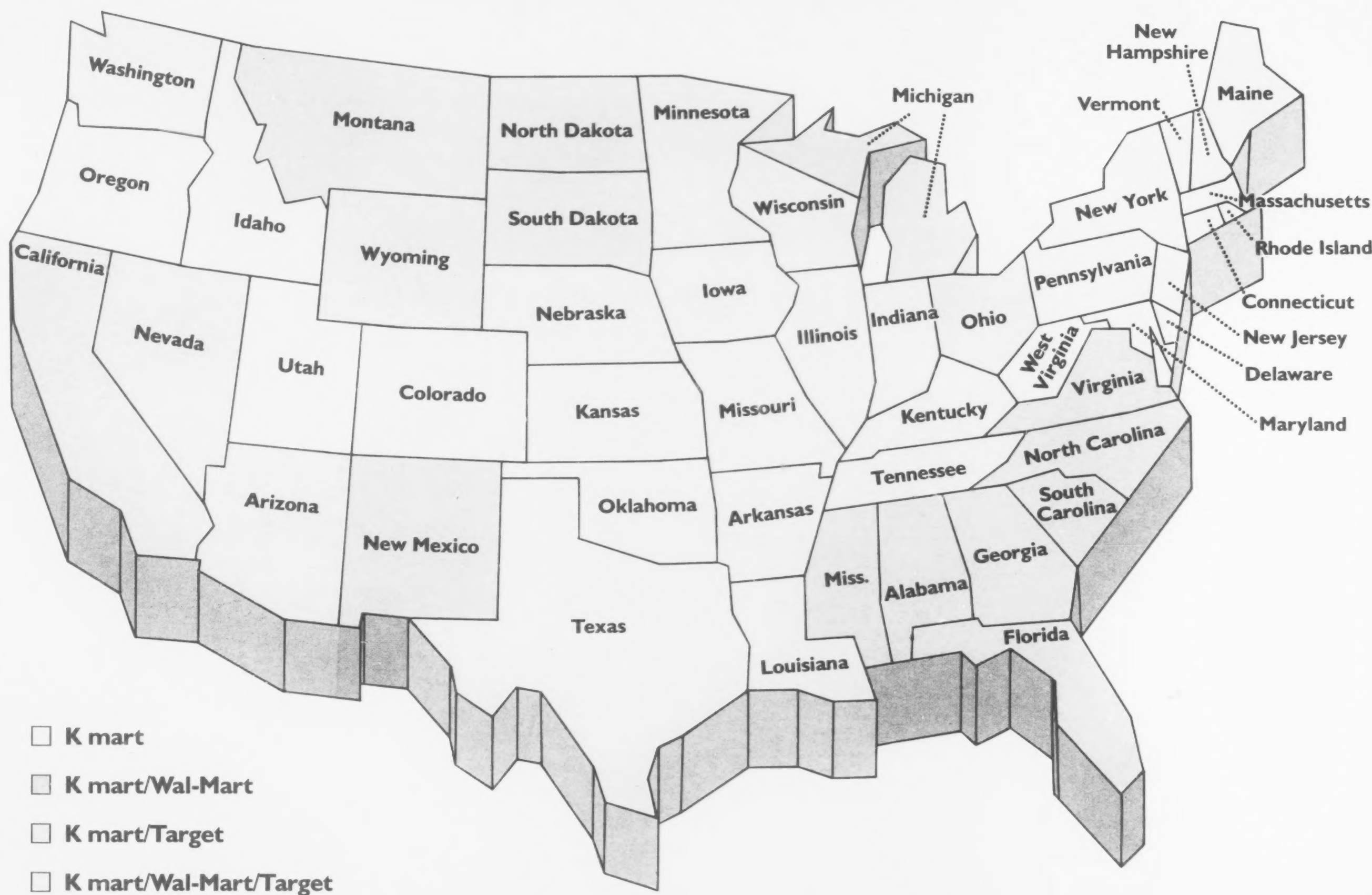
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K mart/Wal-Mart/Target

Expansion

The Top 3 Discounters Jockey for Position



The Big Three: Store Count by State							
State	K mart	Wal-Mart	Target	State	K mart	Wal-Mart	Target
Alabama	41	61	0	Nebraska	18	10	4
Alaska	0	0	0	Nevada	9	0	5
Arizona	25	0	12	New Hampshire	8	0	0
Arkansas	19	74	3	New Jersey	42	0	0
California	157	0	91	New Mexico	20	15	0
Colorado	35	17	17	New York	61	0	0
Connecticut	16	0	0	North Carolina	71	12	0
Delaware	3	0	0	North Dakota	12	0	4
Florida	144	74	0	Ohio	124	0	16
Georgia	76	59	0	Oklahoma	19	79	8
Hawaii	0	0	0	Oregon	21	0	0
Idaho	11	0	0	Pennsylvania	108	0	0
Illinois	108	57	7	Puerto Rico	11	0	0
Indiana	76	16	31	Rhode Island	5	0	0
Iowa	36	18	16	South Carolina	41	30	0
Kansas	26	36	2	South Dakota	11	0	2
Kentucky	48	47	5	Tennessee	62	73	9
Louisiana	38	63	2	Texas	147	203	48
Maine	8	0	0	Utah	17	0	0
Maryland	27	0	0	Vermont	3	0	0
Massachusetts	30	0	0	Virginia	45	2	0
Michigan	123	0	6	Washington	30	0	0
Minnesota	42	4	21	West Virginia	13	0	0
Mississippi	17	47	0	Wisconsin	48	10	10
Missouri	42	101	9	Wyoming	10	0	2
Montana	11	0	2	Total	2,115	1,108	317

Store counts as of Dec. 1, 1987

Source: DSN research

K mart, Wal-Mart, Target Develop Their Strategies

Like a modern day General Sherman, Wal-Mart has continued its march to the sea—and the Canadian border. However, the sea this time is the Pacific Ocean and scorched earth has been limited to competitors' bottom lines, rather than crops and antebellum mansions.

Over the past five years, the company's growth has been mainly limited to the core of southern states that made up its 1970s market area, but the company's forays into new markets portend its expansion priorities for the future.

By contrast, Target, still trying to digest its acquisition of 53 Gemco stores in California, is expected to grow modestly in a gradually eastward direction over the next few years at a rate of about 10 percent per year in store count. And, K mart's store count is expected to grow at only 1 or 2 percent per year, barring major acquisitions or a bold move into rural markets.

Wal-Mart has announced that it plans to open about 120 to 150 stores a year, and that figure may be modest. Vice chairman Jack Shewmaker termed Wal-Mart "aggressive opportunists." He said "We have been telling everyone for years that we're going to slow down expansion, but opportunities continue to present themselves."

According to Salomon Brothers analyst

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Wal-Mart Heads West; K mart Plan Modest

(Continued from page 73)

Jack Seibald, those opportunities will continue to arise. "Given the correction in the stock market in October, there will be a lot of stores in prime locations available for less than the cost of building new stores," he said, adding that Wal-Mart has well saturated its traditional markets and is looking to the future.

Wal-Mart has said that it plans to maintain an aggressive expansion strategy. Likely areas include Florida, Colorado, the upper Midwest, New Mexico, Arizona, the Carolinas, Virginia and Georgia. However, Seibald, who described Wal-Mart's growth pattern as "inkblot-like," is keeping an eye on Ohio and Pennsylvania, two border states with no Wal-Mart stores yet. Through acquisition, New York, Maryland, Delaware and other Eastern states are outside possibilities, Seibald said.

Walter Loeb, an analyst with Morgan Stanley, agreed that Wal-Mart will look at the Northeast, but barring a real bargain basement purchase, he said that he doesn't expect that move until the early 1990s. "The Southwest is its first priority," he said, "and the demographics and type of customer in the region can't be really attractive."

Other Expansion Methods

Another method of expansion is through 220,000-square-foot Hypermart USA outlets, which will be located in the large metro areas the company has had less success in cracking, and its combination grocery/general merchandise Supercenter concept, which could penetrate new markets and replace low-grossing existing Wal-Marts in established markets.

Salomon's Seibald sees the latter, 120,000-square-foot Supercenters, with 40,000 square feet dedicated to groceries, as the stronger growth vehicle, but cautions that results from the two concepts are a year or two away.

In 1987, Wal-Mart added over 20 percent to its retail square footage, with over 14 million square feet introduced. That total included 131 new Wal-Mart stores, bringing the chain to 1,108 units as of late November. "We will continue our strategy of saturation and expansion around the perimeter of our market area," Shewmaker said.

One method Wal-Mart has used is to couple new stores with Sam's Wholesale Club outlets (84 as of year-end with an estimated 20 to 24 scheduled for 1988), effectively doubling the company's impact in medium-sized markets like Madison, Wis., one of the markets where it recently implemented the strategy.

Target, now at 317 stores in 24 states, has taken an almost opposite approach to expansion. Apart from its major Gemco gulp, the company has grown at about 10 percent a year, and will probably maintain or slightly accelerate that

rate over the next few years. Target plans to add 150 stores over the next four years.

Target has remained primarily an urban operation, and it raised eyebrows by taking on K mart in the giant's front yard, opening six stores this year in metropolitan areas of Michigan. Like Wal-Mart, Target still has a lot of room to grow, although new markets it enters will almost invariably be heavily populated with stores.

The careful, controlled growth pattern Target has adopted fits its operational capabilities well. The chain lacks the extensive distribution center capability of the other two, so it is concerned with

outstripping its ability to supply new stores.

K mart doesn't have that problem, but as the only truly national discounter, it has come close to saturating its markets. The result has been a near-zero growth rate, which has jumped a bit as the company has reaccelerated its expansion plans. K mart will open roughly 50 or so stores a year in the future.

If K mart does expand significantly, it will probably be through new businesses and/or acquisition. The most natural route for expansion—building new stores in rural markets—is probably closed for the near future as the company concentrates on rolling

out its satellite communications system chainwide. At a rate of about 50 a month, that Herculean task will be completed in 1990 or 1991, which, if present projections of competitor growth holds true, would be a natural time to look at new rural markets.

However, there's a good chance that if K mart waits that long, it'll find Wal-Mart already open and doing business. Salomon's Seibald noted that a major stumbling block to further K mart expansion is that its stores are not as efficient as Wal-Mart's or Target's. "Growth right now just isn't cost-justified," he said.

K mart's energy and capital seems to be concentrated on

increasing store-level profitability. The company expects its new satellite communications system to further that interest, and it is experimenting with new operations and merchandising techniques aimed at bolstering the bottom line.

The most visible results of this orientation are its new apparel-intensive prototype for mid-size stores, which have suffered the most in profitability, and a companywide increase in more profitable apparel and home fashions products in its store mix.

K mart will remodel 140 stores in 1988, up from 130 stores this year, at an estimated cost of about \$1 million per unit.

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Analysts Predict Continued Strength in Wal-Mart Stock

“Wall Street [still] loves Wal-Mart.” That’s the message carved into the foreheads of financial analysts, even after the Black Monday stock market crash.

The momentum of this year’s 37.5 percent earnings gain should carry it handily through the expected softer economy in 1988, analysts predict—and even a recession—if its experience at picking up market share in the Oil Patch recession is any indicator.

Even K mart’s success in moving upscale a couple of notches should work to Wal-Mart’s advantage, one analyst said, because it leaves more of the low ground to its Southern cousin.

Although analysts credit K mart for “getting its act together” through repositioning into specialty retailing, tightening management and refurbishing stores, their recommendations generally run no better than a neutral or a weak hold for the short term.

And the stock price of Dayton Hudson Corp., parent of Target, has plunged so radically since Black Monday that analysts say investors might as well hold onto it. In late November, D-H stock was trading at \$28.13, or close to book value of about \$25 a share. Its precrash high was \$63.

D-H Prospects Up

The prospects for D-H are looking up for next year because the operating profits of its problem child, Mervyn’s, are expected to show a moderate turnaround. Another plus is that the preopening expense from the 70 stores that Target opened in 1987, including the 50 converted Gemco units, won’t be dragging down D-H net next year as it did by 18 cents a share in 1987. Moreover, those new stores will be close to maturing to the profit level expected by Target. Target is scheduled to open 28 units next year.

“Wal-Mart is an awesome competitor,” said Donald Trott, analyst for Dean Witter in New York. “I don’t see how any discounter can compete against it.”

Gross margins, which are declining faster than SG & A expenses, indicate for the first time that Wal-Mart, indeed, is passing along its income tax savings under the 1986 tax law in the form of lower prices, as it said it would, Trott said. The lower prices sharpen its competitive edge even more.

And next year, its income tax rate will decline to 40 percent from 44 percent in 1987, he said.

Other favorable developments include the chain’s satellite system, which eventually will permit automatic vendor reordering, with just-in-time inventory deliveries speeding turnover.

Altogether, Wal-Mart should be able to trim its expense to sales ratio by 150 to 200 basis points more next year, Trott predicted. A percentage point consists of 100 basis points.

Its experience in same store

sales gains in the Oil Patch successfully tests the theory that discounters should weather a recession better than other retailers, Trott said. In the early stages of that recession, same store sales gains exceeded those for the rest of the chain, Trott said. The gains then slowed to 5 percent to 6 percent from double digit levels but now have increased to 8 percent to 9 percent on their way to resuming double digit growth, Trott said.

Wal-Mart’s price-value ratio is so superior that it picked up market share, he said.

When Wal-Mart opens its first hypermarket, in Garland, Tex., after Christmas, it will pick up an enormous amount of media hoopla that will help its stock price, he said, even though it will take years for the hypermarkets to contribute to earnings.

For the near term, Wal-Mart stock will do better than K mart’s or D-H’s, predicts Fred Wintzer Jr., an analyst

for Alex Brown & Sons, Baltimore. In the wake of the market crash, investors are seeking quality. “Wal-Mart has got so much momentum that its earnings growth will continue,” Wintzer predicted.

In the South, customers perceive Wal-Mart as running a better store than its competitors, he said.

K mart “has gotten its act together and improved all programs in the ’80s, such as moving into higher-margin apparel, upgrading stores and

improving information systems through scanning,” he said. But, by moving upscale a couple of notches, it leaves for Wal-Mart a number of its customers who didn’t move with it, Wintzer said. “The whole world didn’t go upscale.”

In moving closer to Target, K mart will hurt Target, which prides itself as the upscale discounter, while helping Wal-Mart, he predicted.

As a stock pick in the retailing group, Wintzer puts Wal-

(Continued on page 93)



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Analysts Predict Wal-Mart Strength

(Continued from page 91)
Mart ahead among the Big Three even though its shares are trading at a premium in terms of its price-earnings ratio. All three were trading in late November in the \$27 to \$28 range. But the price-earnings ratio for Wal-Mart remains at a lofty 27. In comparison, the ratio for K mart and D-H has settled to today's retail norm of 9.

Because of the positive developments at K mart, coupled with the problems of Mervyn's, Wintzer rates K mart ahead of Target parent D-H as an investment.

Wal-Mart "[is] a finely managed company, probably the best of any retailer," said David Williams, an analyst for Advest in Boston. Net profits will increase to \$1.40 per share in 1988, he projects, from an estimated \$1.10 in 1987 and 80 cents in 1986.

Dean Witter rates K mart as a hold, said analyst Linda Kristiansen. She projects earnings of \$3.35 a share for 1987, compared to \$2.84 a share in 1986.

Tightening Hard Lines

In addition to more centralized buying and labor savings from scanning, another positive development for K mart is that it is weeding out less profitable hard lines categories. It slashed hard lines sku's by 7 percent in 1987 and will cut them by 7 percent to 8 percent more in 1987, she said.

Same store sales for K mart discount stores will show a 3 percent increase for 1987, Kristiansen estimated. Including specialty chains such as Builders Square, same store sales will increase 3.4 percent this year, she added.

As a negative, K mart's decision to cut its circulars to one a week from two may boomerang, she said.

E. F. Hutton also rates a hold for K mart. In a research report, analyst Bernard Sosnick acknowledged that "K mart is a better managed company than it was a few years ago," and credited it for improving its merchandising and operations. Nonetheless, Sosnick expressed concern that Wal-Mart is widening the "already yawning gap" between it and K mart in terms of its low ratio between selling, general and administration expenses to sales.

Sosnick said he lacked confidence in K mart's "ability to cope with a slow pace of consumer spending and an intensification of competition from Wal-Mart."

Ed Weller, Montgomery Securities, San Francisco, is neutral on K mart, even though he credits it for such improvements as establishing better controls at its distribution centers and improving their capacity.

But he recommends a buy for Wal-Mart. The growth in same store sales next year will slow to 9 percent from 11 percent in 1987, he predicted. That would still be triple the K mart same store sales increases this year.

D-H would be a "strong

buy" in the mid-20's price range, said Mark Witmer, Wessels, Arnold & Henderson, Minneapolis. The Dart group, which attempted a hostile takeover this year, has gone away for good and any other takeover attempt appears remote, he said.

Thanks to the excellent condition of its star, Target, and a moderate turnaround of Mervyn's, D-H earnings should increase to about \$3.60 a share in 1988 from \$2.50 this year, he predicted, reducing its vulnerability.

Operating profits (pretax, preinterest) for Mervyn's should turn around to \$180 million next year after sinking to \$140 million in 1987, Witmer estimated.

Target remains in robust shape, even though preopening expenses dragged down operating profits by about \$50 million in 1987. Witmer estimated 1987 sales will total \$5.2 billion, compared to \$4.4 billion in 1986. Same store sales will gain 5 percent.

Target will earn an operating profit this year of \$338 million, he predicted, compared to \$311 million last year.

"Investors are showing a healthy dose of caution toward retailing stocks," Witmer said. "They've been one of the weakest groups" since July.

But following the massacre Oct. 19, retail issues have experienced less of a loss, relatively speaking, than other groups, the analyst said.

Big Three Statistical Review

Chain	Earning Power*		Leverage		Net Income Percent**	
	1987	1986	1987	1986	1987	1986
Wal-Mart	17.44	16.33	1.80	1.81	3.87	4.04
Dayton Hudson***	10.70	12.20	1.58	1.57	2.84	3.36
K mart	7.67	6.47	2.26	2.47	2.60	1.12

*Margin times turnover

**Net income as percentage of sales

***Includes entire Dayton Hudson Corp., not just Target

Source: The First National Bank of Chicago

Wal-Mart's earnings power (margin times turnover) outstrips that of K mart by more than 2 to 1. Despite massive expansion, it has kept its debt-equity ratio stable, indicating internal funding. Over the year, K mart improved its net income as a percentage of sales more than two-fold. Yet, net income as a percentage of sales for Wal-Mart remains more than a full percentage point higher than for either K mart or Target parent Dayton Hudson.

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Whether the words are, "The Savings Place," "You'll Never Pay Less," or "Low Prices Everyday," K mart, Target and Wal-Mart are trying to convey the same message: "Buy here."

Low price may be their verbal declaration, but it's not the only statement they make. And their delivery differs markedly.

Target and Wal-Mart concentrate on hammering home their everyday low-price message via in-store signage and limited advertising.

K mart, on the other hand, is an aggressive promoter of special sale savings and lifestyle themes, frequently taking to the airwaves to deliver its message.

Neither Target nor Wal-Mart have undertaken marketing programs approaching the scope of K mart. But, then again, neither are trying to change or refocus their image the way K mart is.

Recently, the discount giant announced that it will cut back on its circular program to bolster its TV ad schedule in 1988. And K mart is the only one of the three to use spokeswomen to deliver the message of price, value, fashion and lifestyle.

Shoppers of all three discounters have apparently gotten the message, none more clearly than K mart's.

Different Findings

Despite DSN market basket research in five metropolitan areas that revealed that K mart prices are generally higher than those at Wal-Mart and Target, a recent Leo J. Shapiro survey found that more K mart shoppers associate that discounter with delivering reasonable/cheap prices and sales and specials than its two chief competitors.

When shoppers were asked what was the first thing to come to mind when each store name was mentioned, one-third of K mart's shoppers said reasonable/cheap prices compared to less than 25 percent of Wal-Mart shoppers and one-fifth of Target's customers.

The market basket research showed Wal-Mart's prices are the lowest of the three overall.

More Wal-Mart shoppers said reasonable/cheap prices come to mind when they think of Wal-Mart than anything else but only slightly more than the generic association of the store being a "discount store."

Target shoppers associated the upscale discounter more as a "discount store" than with any other attribute. A little more than one-quarter of Target shoppers said the first thing that comes to mind when they think of Target is that it is a discount store, compared to 23 percent for Wal-Mart and 16.5 percent for K mart.

K mart's low-price image among consumers, despite its higher prices, may be testament to its highly visible marketing and advertising programs, which pound its message as a deliverer of low-cost, high-quality merchandise with fashion and lifestyle themes.

Last month, K mart kicked off its new marketing program for its Home Fashions Division. The campaign, which introduces Martha Stewart, an

K mart Recognized As 'The Savings Place'			
First thing that comes to mind when store name is mentioned			
Market	K mart	Wal-Mart	Target
Discount Store	16.5%	23.3%	26.5%
Reasonable/Cheap Prices	32.2	24.3	19.4
Sales/Specials	9.5	6.3	7.4
An Apparel Item	4.5	3.4	5.6
Nice Place to Shop	2.5	3.5	3.9
Logo/Sign/Bull's Eye	1.0	0.4	3.4
Variety/Selection	4.7	4.2	2.1
One of the Other Two Discounters	1.5	3.5	2.0
Department Store	1.4	0.5	2.0
Good Quality	0.5	1.6	1.5
Don't Like It	1.8	1.1	0.5
Junk	1.1	0.7	0

Source: Leo J. Shapiro & Associates/DSN, December 1987

author and columnist on home entertaining, will cost about \$15 million in the first year.

Through Stewart, K mart hopes to drive home the message that tasteful, even elegant entertaining does not have to be costly to be nice or good, and that all these ingredients can be found at K mart.

K mart is looking to further "develop and reinforce a very strong image of the complete store," said Michael Wellman, vice president, marketing.

K mart is doing this now through a variety of programs, the most popular of which has been Jaclyn Smith, spokeswoman for the Jaclyn Smith Signature Collection in apparel.

The discounter is also seeking visibility through sponsorship of the Greater Greensboro Open, now known as the K mart Greater Greensboro Open, the Pro Golfers Association's oldest tournament. The desire here is to help customers associate K mart sporting goods with the quality merchandise used at a professional golf tournament.

And the company's sponsorship of the U.S. Hockey team during the Winter Olympics in February and its retail sponsorship of the Summer Olympics in Seoul, Korea, next summer, should help the discounter be viewed by Americans as a supporter of amateur sports and American athletes, both positive messages.

The Martha Stewart program, introduced to TV audiences in 11 markets—Chicago, Philadelphia, Detroit, Atlanta, Kansas City, Indianapolis, Denver, St. Paul/Minneapolis, Dallas/Fort Worth, Tampa/St. Petersburg and Seattle/Tacoma—on Nov. 9, will be seen by the rest of the country during the Olympics in February.

The TV message informs consumers that Martha Stewart has entertained all kinds of people, from her neighbors to royalty, and now is ready to assist 77 million people, the number of people who visit a K mart store every year, with their home entertaining hurdles.

Wal-Mart and Target do not approach their marketing in the same aggressive way. They have no celeb-

rity spokespeople and sponsor no national events with which their names are associated.

Instead, these retailers concentrate more on delivering their everyday lowest-price message directly to their customers through print ads, particularly circulars. Target, however, does a lot more print advertising than Wal-Mart and uses television, albeit moderately.

In fact, recently, Wal-Mart released a 36-page circular that included no special prices, just the company's everyday low prices.

Jack Shewmaker, vice chairman and chief financial officer, Wal-Mart, said the company tried the circular with "a little bit of trepidation" but reported the results were positive. "Our everyday low price strategies have been employed for so long and are so strong now that customers said this was just a shopping reminder."

But it's not the only shopping reminder Wal-Mart gives its customers. A recent Wal-Mart circular ex-

pressed the company's everyday low price strategy in a full page statement on the back of the front cover.

The page contained a message telling customers not to be "fooled" by other retailers' frequent circulars and sale prices. It instructed them to check everyday prices, and "you'll find you may be paying too much."

Wal-Mart's "philosophy," the statement said, "is to offer you the best price possible, day-in and day-out, not just during a sale. We advertise on a very limited basis to keep our expenses as low as possible and pass the savings on to you."

This kind of marketing to the customer has proved very successful and will be continued, according to a Wal-Mart insider, who asked not to be named. No changes are expected, not even as the chain continues to expand into larger markets.

Wal-Mart's marketing is rooted in the belief that once customers become acquainted with the discounter, its pricing structure, employees and Buy American program, they'll choose Wal-Mart. It's cocky but simple.

Target's marketing program is slightly different. It is geared more to promoting quality goods at a fair price with service, commented Alan Brass, broker with Dain Bosworth, a Minneapolis securities house.

He noted that the keynote to the program is demographics. Target searches for store locations favorable to its demographic profile and high-traffic needs, and locates a store there so it doesn't have to aggressively search for its customer base. It advertises, especially at first, and then uses its circulars and limited TV flights to "remind" customers of their presence in the market.

The hallmark division of Dayton-Hudson utilizes a more subtle marketing approach to reach its customers, more in keeping with its department store parent. It focuses attention on everyday value, high quality goods, presentation and private label goods to draw customers.

K mart Plans to Cut Circulars, Increase TV, Image Advertising

Of the Big Three discount chains, K mart is by far the biggest spender in all areas of advertising.

And next year, the Troy, Mich.-based discounter plans to increase its television and image advertising by allocating funds saved from producing fewer circulars.

However, while K mart is cutting back on its circular advertising from twice weekly to once weekly next year, it is by no means becoming less aggressive in product and price advertising.

K mart will continue to run its weekly sales, matching the effort of Target's weekly assault. Both produce more circulars than Wal-Mart, which issues only one per month. And, that once-per-month circular features everyday low prices rather than item and price advertising.

While Wal-Mart pounds home its everyday low price message, K mart is pursuing a different image as a contemporary retailer of fashionable, quality merchandise at reasonable prices. The chain just recently kicked off its Martha Stewart (nationally recognized expert on food and entertaining) campaign in November on television and print in *People*, *Vogue* and *Family Circle*.

K mart spent \$21.4 million on television advertising for the first nine months of 1987, a 12 percent decrease from the comparable period in 1986, according to figures just released by the Television Bureau of Advertising (TvB).

Wal-Mart, on the other hand, has increased its total TV spending so far this year by 10 percent, while Target has increased its to-

(Continued on page 97)

K mart to Cut Circulars to Increase TV, Image Advertising

(Continued from page 95)
tal TV spending by just 1 percent.

Still, K mart spent more on total TV advertising than the other two chains and is the only one of the three to use network television.

However, network television seems to be losing importance for K mart, according to these figures, while spot TV is gaining more of the discounters' attention, a possible response to Wal-Mart gaining more of a stronghold in competing markets.

K mart spent only \$8.6 million on network spots during the first nine months of 1987 compared to \$15.3 million spent during the same period in 1986. On spot TV, it increased spending to \$12.7 million during this period from \$8.9 million last year.

Wal-Mart spent much more on spot TV than K mart or Target did during the first nine months of both 1986 (\$15.8 million) and 1987 (\$17.4 million). Target only spent \$6.63 million during the first nine months of 1987 and \$6.57 million a year ago.

Advertises in Small Towns

While figures indicate that K mart placed more emphasis on spot rather than network TV, the opposite is true in radio. This could be due to Wal-Mart's less aggressive—at least on the surface—posture in radio. Wal-Mart tends to advertise in small towns which are not picked up by the radio expenditure report compiled by the Radio Advertising Bureau (RAB).

K mart decreased its spot radio spending by 137 percent to \$463,155 from \$1.1 million last year. However, K mart, the only network user of the three discounters, increased its radio network spending to \$2.4 million during first six months of 1987 from \$1.9 million a year ago.

Target, which decreased spot radio spending by 24 percent to \$522,000 from \$649,000 last year, is still the largest spender in spot radio out of the Big Three discounters.

Slick Promotions

Target is noted for its slick promotions, concentrating mainly on the Sunday circulars and print for item and price advertising supplemented by broadcast.

Target primarily utilizes circulars and run-of-press (ROP) advertising. The chain backs up its promotions by having enough promotional merchandise on hand and easily accessible for three weeks worth of ad items by placing them on pallets in a separate area in the back stockroom.

While Target's newspaper advertising is only a fraction of K mart's, it beats Wal-Mart by a wide margin, according to figures compiled by the Newspaper Advertising Bureau.

K mart bought 1.81 million standard advertising units (sau's) for the first six months of 1987 and 1.81 million sau's in the same period last year.

Target bought 617,765 sau's for the first six months of 1987

while Wal-Mart only bought 7,168 sau's. While Target's ad space decreased by only 2 percent from the 632,477 sau's it bought during the same period in 1986, Wal-Mart's ad space dropped 209 percent from the 22,182 sau's it bought for the same period last year.

One of the reasons Wal-Mart is able to extend low prices to customers everyday is because it spends less than 1 percent of its revenues on advertising, compared to an average of 2 percent for the other discounters, according to a report by New York-based investment firm, Wertheim Schroder & Co. K mart spends almost 3 percent of sales on advertising annually, according to E.F. Hutton, the

Discount Store Television Advertising (In Millions)							
Chain	Spot TV Jan.-Sept.		Network TV Jan.-Sept.		Total TV Jan.-Sept.		Percent Change
	1987	1986	1987	1986	1987	1986	
K mart	\$12.73	\$ 8.89	\$8.65	\$15.34	\$21.38	\$24.24	(12%)
Wal-Mart	17.45	15.83	—	—	17.45	15.83	10
Target	6.63	6.57	—	—	6.63	6.57	1

Source: Television Bureau of Advertising/Broadcast Advertisers Reports

New York investment firm.

Each chain published a special circular commemorating its 25th anniversary. Wal-Mart ran a 36-page, full color circular for the month of October, while Target had a 32-page full color 25th birthday

sale circular running the week of Oct. 25 to Oct. 31. K mart's 25th anniversary circular was eight oversized tabloid pages done in silver border running from March 1 to March 3.

Almost half of Wal-Mart's and Target's circulars were

devoted to apparel while K mart did not highlight the category until the last two pages of the circular. Wal-Mart spent a number of pages on toys while Target and K mart concentrated more on housewares.

Venture

To our valued resources...



Our policy concerning gifts:

We would like to take this opportunity to restate our policy concerning gift-giving. This policy applies not only during the upcoming holiday season, but all year long, on any occasion.

Despite well-meaning intentions on the part of the donor, gifts of any kind are a violation of Venture policy.

For the mutual protection of our resources, our Associates, and our Customers, we, as a policy, prohibit our Associates from accepting gifts, gratuities, payments or favors of any kind. Any gifts received by a Venture Associate will be returned to the donor, or donated to a charitable organization.

Our Associates are fully aware that violation of this policy is considered a very serious matter. We call upon you to assist us, and our Associates, by refraining from giving or offering such gifts.

Your awareness of this policy, and your cooperation in enforcing this policy, will help to foster the continuation of a close business association.

We would also like to take this opportunity to thank you for your contributions to the success of Venture this year. Best wishes for a happy holiday season, and a prosperous New Year.

Philip Otto
Philip Otto
Chairman

Julian Seeherman
Julian Seeherman
President, Chief Executive Officer

America's Favorite Store

Kmart

The Saving Place

CELEBRATING OUR 25th YEAR OF SAVINGS

SILVER ANNIVERSARY COUPON BOOK

Visit your local Kmart store and pick up our 25th Anniversary Silver Anniversary coupon book. Celebrate with great savings on this special occasion.

25 years ago on March 1, 1962, the very first Kmart opened for business. Since that day, over 2,000 additional stores have opened all across America. We're ready to celebrate our birthday in a really big way. This section contains some of the finest bargains we could assemble for our 25th Anniversary Sale.

1.57 Save 38%

Over 3.87 Skein. Yarn Match 4-ply yarn of Marquessa/Lana del Pao.

4.47 TDK

Sale Price 10. Beta videocassettes. Choose VHS with 6-hr. recording capability or Beta with 4-hr. recording capability.

22.88

Sale Price. 14 styling effects for setting small or large curls. Heating unit and corded electric brush.

54.88

Sale Price. 10-gal. wet/dry vacuum. Includes 6" hose, 2 extension wands, 10" nozzle. Avoid the hassle after

WAL-MART
SPECIAL BUYERS

Twenty Fifth
ANNIVERSARY

Walmart's important to you

14.97

24.96

96¢

2

10

Monthlong Celebration
at SUPER LOW PRICES EVERYDAY

AT WAL-MART YOU DON'T HAVE TO BUY ON SALE TO BUY RIGHT!

59.64

8

Nylint

WAL-MART

9.97

[illegible]

Source: Leo J. Shapiro & Associates/DSN, December 1987.

K mart/Wal-Mart/Target

Market Studies

Wal-Mart, Target Muscling In on K mart

Essential to understanding the future thrust of the nation's three largest discounters is a look at how these chains currently perform in the market areas where they are located.

K mart has achieved a geographic coverage of the U.S. that surpasses that of Sears, the world's largest retailer. K mart, which calls itself "America's favorite store," has become America's "most familiar store," according to the findings of a survey conducted for DSN by Leo J. Shapiro & Associates, Chicago.

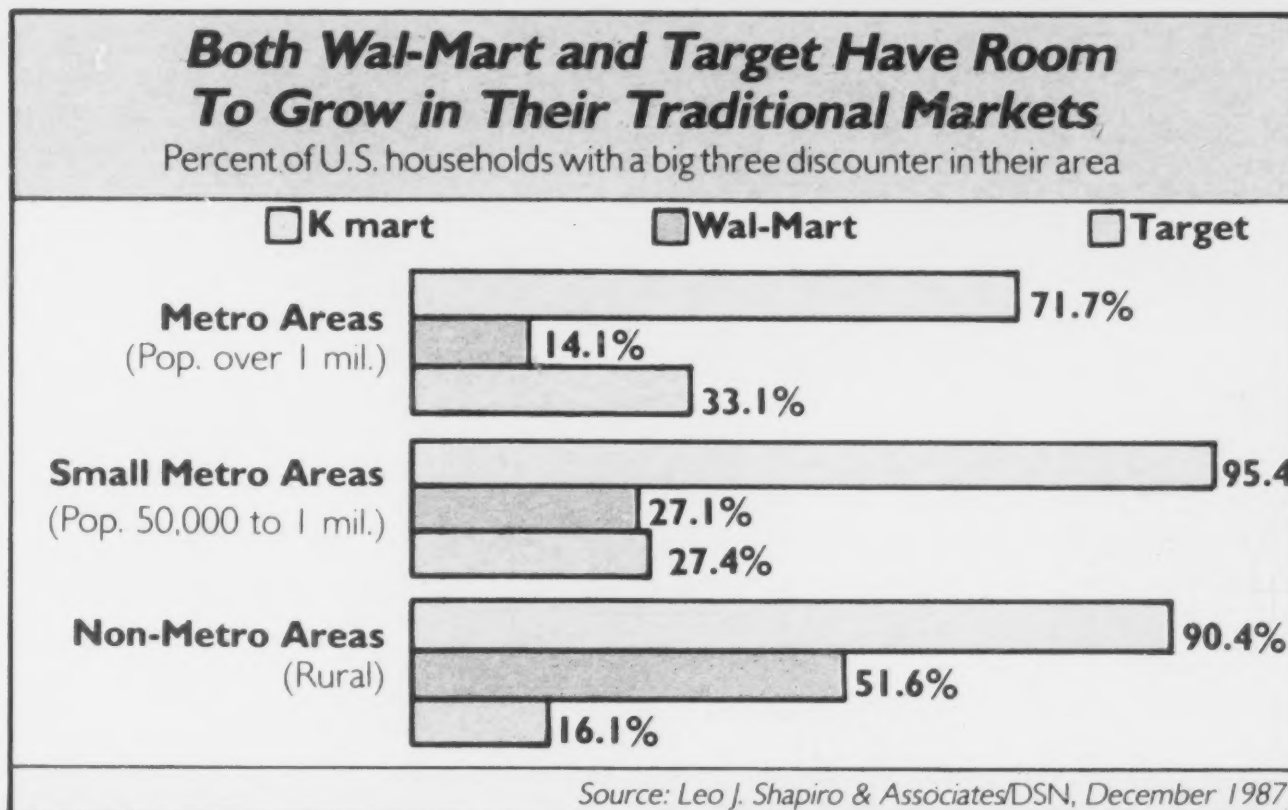
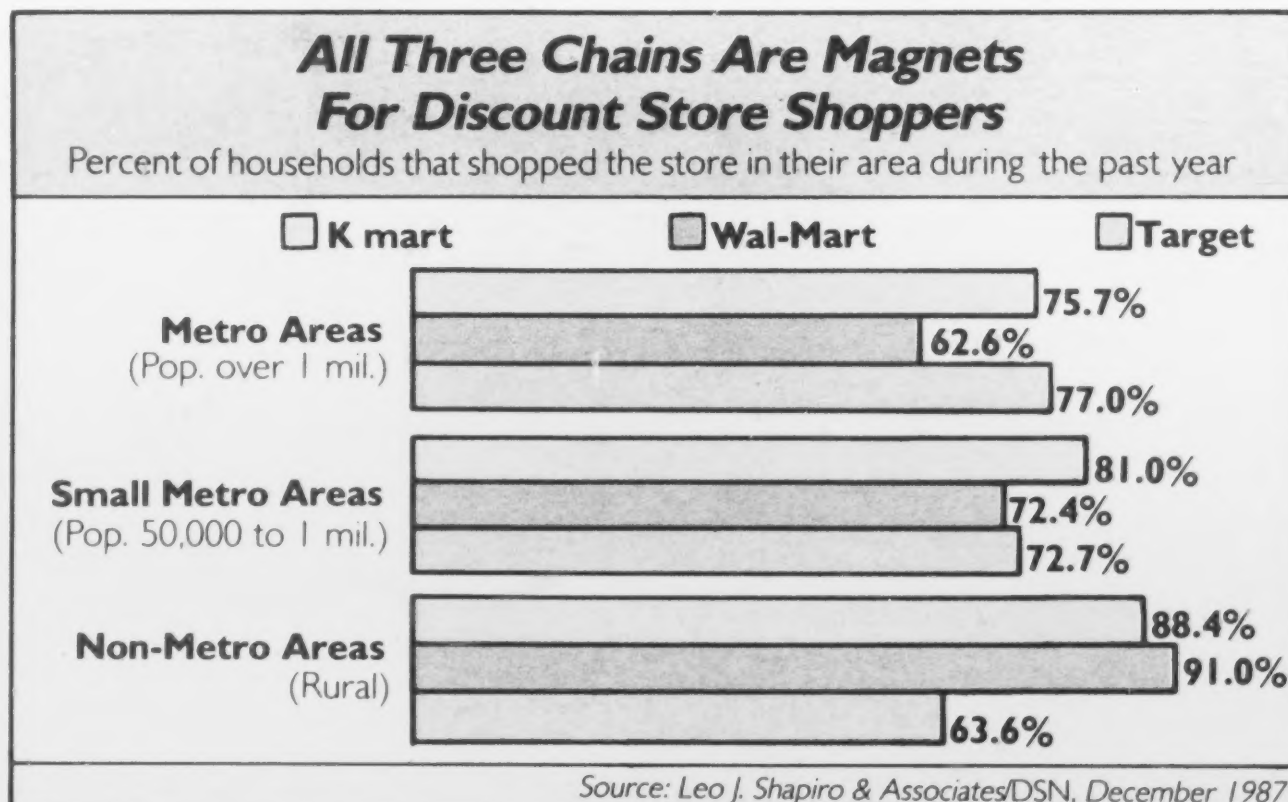
Eighty-four percent of U.S. households say there is a K mart store in their area. Furthermore, K mart's penetration is as strong in large cities as it is in rural towns. Nearly three-quarters (72 percent) of residents living in metropolitan areas of 1 million or more say K mart is in their area. In smaller metro areas (with populations from 50,000 to 1 million), 95 percent of households say there is a K mart near them. And, in non-metropolitan or rural areas, 90 percent of households report a nearby K mart.

Wal-Mart's strength clearly lies in small-town America. More than one-half of survey respondents who live in non-metro, rural areas said there is a Wal-Mart store in their area. But, in big city markets of 1 million or more inhabitants, only 14.1 percent said there is a Wal-Mart nearby.

Target, on the other hand, is strongest among big city and smaller metropolitan area households, which combined represent approximately 75 percent of the U.S. population. In these areas, Target has a presence in one-third of big city markets and in nearly 30 percent of small metro markets. But, in non-metro markets, only 16.1 percent of the households said there is a Target nearby.

Although Wal-Mart and Target have grown in vastly different geographic environments, both are trying to master markets beyond their forte. At the same time, neither have exhausted the growth possibilities in their traditional markets.

Target has store coverage among 51 percent of all U.S. households in major metro areas, or in areas representing roughly 50 percent of the U.S. population. K mart has store coverage among 36 percent of U.S. households in major metro areas, while Wal-Mart only reaches about 21 percent of big city shoppers.



In big metro areas, shoppers travel further to get to Wal-Mart stores. For example, Wal-Mart's retail facilities in cities like St. Louis and Dallas tend to be on the outskirts of the metro area. On average, shoppers must travel eight minutes further to a Wal-Mart than to a K mart or Target (21 minutes vs. 13 minutes) in big city markets. Big metro area shoppers also tend to spend less at Wal-Mart, just \$161 per year median, compared to \$123 at K mart and \$202 at Target.

In small metro areas of 50,000 to 1 million residents, K mart covers 38 percent of households; Target, 34 percent; and Wal-Mart, 33 percent. About 28 percent of the nation's households live in small metro areas.

In non-metro/rural markets,

where about 24 percent of the U.S. population lives, Wal-Mart has coverage of 46 percent of the households. K mart covers 27 percent of this relatively small segment. Target stores are available to only 15 percent of rural households.

DSN editors traveled to five cities where the Big Three lock horns. They observed, photographed and conducted price comparisons to analyze the strengths, weaknesses and strategies of the three discounters.

• In St. Louis, Wal-Mart is poised for a major assault with five to eight new discount stores, two Sam's Wholesale Clubs, three dot discount drug stores and a hypermarket. K mart, with 22 stores already, is pursuing new sites, and Target has

six stores. All three are breathing down the neck of hometown Venture.

A market basket of 65 of the same or similar items sold by all three chains in mid-October revealed Wal-Mart to be the daily low price leader by a small margin over Target.

• All three chains have a commanding presence in Dallas. K mart has 32 stores. Wal-Mart weighs in with 15 discount stores, plus two Sam's Wholesale Clubs and a hypermarket on the way. Target matches Wal-Mart's store count with 15 outlets.

Wal-Mart was clearly the low-baller in Dallas. Of the 30 products carried by all three, Wal-Mart was the lowest priced on 60 percent of the items. K mart was the lowest on one-third, and Target the lowest on about 25 percent of the items.

• K mart, Wal-Mart and Target have carved their niche between two economic extremes in Memphis, serving consumers on the fringes of affluent communities but still accessible to an impoverished center city. K mart operates seven discount stores in Memphis, while Target and Wal-Mart each have four.

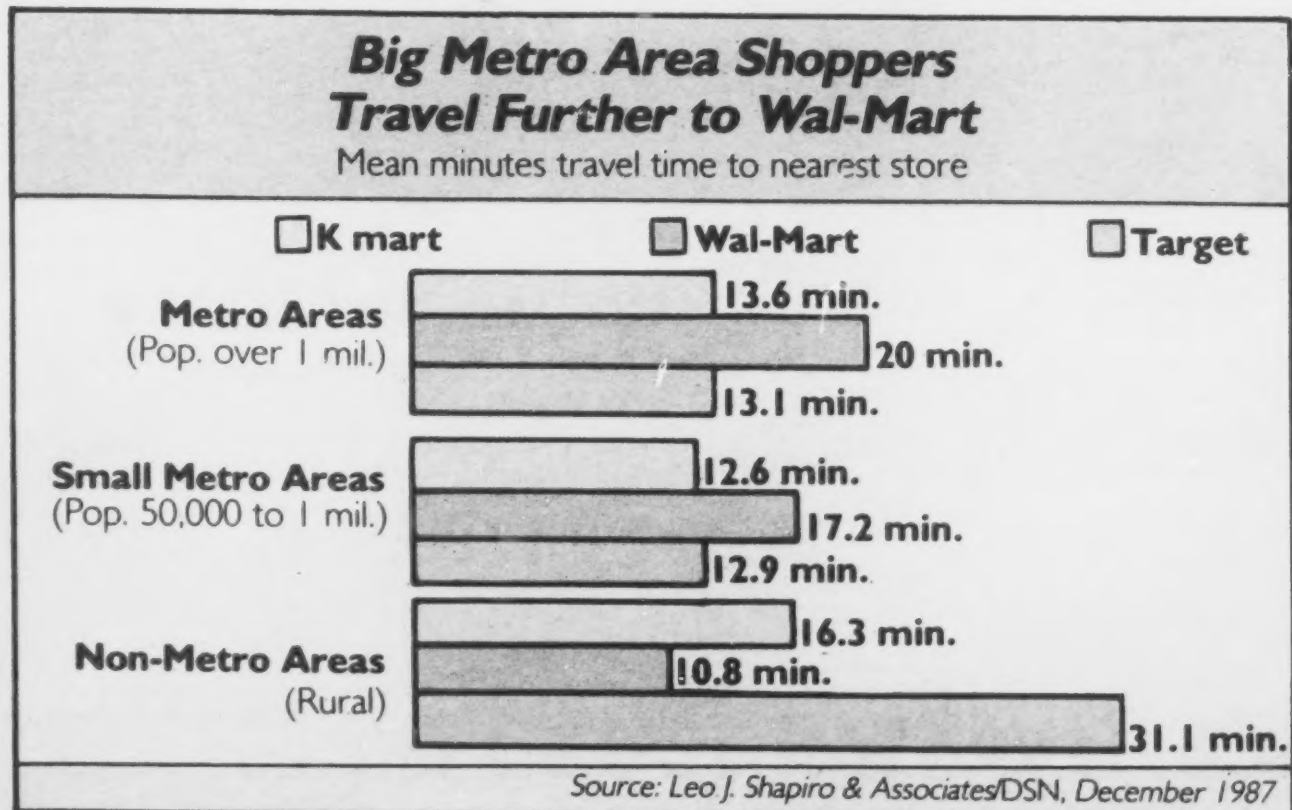
Wal-Mart had the lowest price on 58 percent of the total market basket, but on total price, Target's market basket of products rang up to a lower total. Target was priced lowest on only 28 percent of the market basket, but the savings on these items was more pronounced than at Wal-Mart.

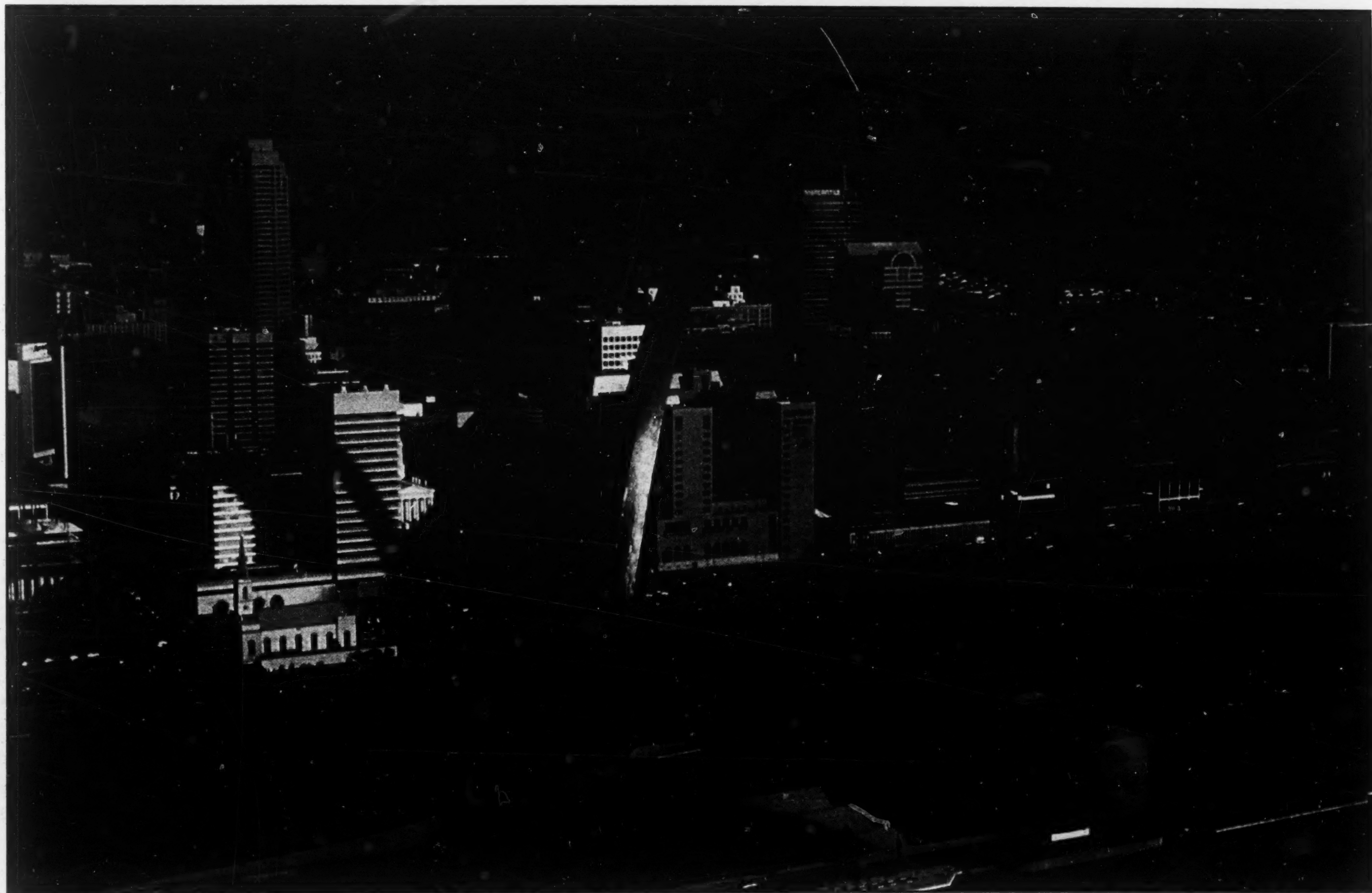
• K mart opened its first Wichita, Kan., store in 1967, and now has four units; Target, which landed there in 1980, has two stores; and Wal-Mart, the newcomer with its first store just opened in August, has two more stores on the drawing board.

The DSN market basket in Wichita showed Wal-Mart with the lowest price on 61.8 percent of the products carried by all three chains. K mart was lowest on 36.8 percent, and Target had the lowest price on only 23.5 percent of the items.

• Local sources say Target dominates the Austin discount market, even though K mart operates four stores, compared to two for Target. A Wal-Mart, located 15 miles from Austin in a booming R & D area, and a Sam's Wholesale Club round out the discount competition.

Despite the upscale image of Target, its pricing fell in the middle in the market basket survey. K mart was highest, while Wal-Mart was lowest.





A city of 2.4 million people spread over 10 counties in two states separated by the Mississippi River, St. Louis is commonly known as the city with the Gateway Arch.

St. Louis Braces for Wal-Mart's Invasion

ST. LOUIS — Wal-Mart is making a major assault on this 10-county market.

Within the coming year, the dynamic discounter will open between five and eight new Wal-Mart stores, at least two Sam's Wholesale Clubs, three dot drug stores and its Hyper-mart USA format.

Recently, Wal-Mart opened three dot stores here and already has two Sam's locations and 11 Wal-Mart discount stores.

Other chains have also targeted St. Louis for growth. Several months ago, Best Buy, the consumer electronics specialty retailer, entered the market with three stores and promises to have seven in the area within three years. Locally-based Grandpa Pigeon's, with seven stores, one of which just opened, will add one more store next year and another in 1989, said president Tom Holley.

And although K mart has not yet identified any new store sites in St. Louis, where it already has 22 discount stores, it is looking for additional sites. Last spring, K mart gave up two stores for its Builders Square home center division, which also is expanding in this market.

Venture, based in nearby O'Fallon, Mo., will add one store next year to the 16 sites it already operates.

And Syms, an off-price apparel retailer, just entered the market.

"St. Louis has been on the

go lately," observed Rex Sims, advertising manager for the *St. Louis Post-Dispatch*, a local newspaper.

Until two years ago, the area had been experiencing negative population growth, a lingering byproduct of economic decline during the 1970s. But all that has reversed itself due to greater corporate interests in this Midwestern city and renewed migration to the area, local experts explained. Now, St. Louis' economic foundation more closely resembles the nation's, growing modestly but steadily every year.

Ranked by *Sales & Marketing Management* in its 1987 Survey of Buying Power as the 11th most populous city in the country, St. Louis has a population of 2.45 million, up 1.6 percent from 1985, and a suburban population of 1.8 million, up 5.8 percent, earning it a ranking of ninth in the country.

Its residents, with a median age of 32, are scattered along a 10-county region in two states—Missouri and Illinois—bisected by the Mississippi River.

Population and business expansion is mostly to the west and north of St. Louis proper where the socio-economic base is diverse.

St. Louis is widely known as home of the famous 630-foot Gateway Arch located on the banks of the Mississippi River. But it is also the home of 10 Fortune 500 companies, six Fortune 100 firms, and pro-

duces more American-made automobiles than any other U.S. city with the obvious exception of Detroit.

Anheuser Busch, the nation's largest brewery, has its U.S. and world headquarters here, as does Ralston-Purina. Four universities are located here.

McDonnell-Douglas is the largest employer in this region, employing 40,000 people, followed by May Depart-

ment Stores, parent company of Venture Stores, which is also based here, Southwestern Bell and Monsanto, according to the St. Louis Regional Commerce & Growth Association.

Currently, St. Louis' population is split almost evenly between professional and non-professional workers. The growth, however, appears to be more on the professional side now that the region is at-

tracting more high-tech industries and manufacturing becomes more automated, observed Stephen Taylor, research manager at the chamber of commerce.

Many of these businesses are lured to the area by relatively inexpensive land costs in comparison to other major metropolitan areas, more than acceptable demographics and very affordable housing costs.

(Continued on page 111)

Challenge for Home-Town Venture

ST. LOUIS — The dominant discounter in this market is locally-based Venture stores, according to consumer research conducted last summer by the *St. Louis Post-Dispatch*.

The survey, which polled 1,601 people in the 10-county metropolitan area, found that more St. Louis-area residents shopped Venture more often than they did other discounters in a three-month period previous to the survey.

But when it comes to actually making a purchase, customers bought more often when they are shopping at Wal-Mart and spent more money at Service Merchandise.

Survey respondents were chosen from throughout the St. Louis market, a two-state statistical area containing 16 Venture stores, 22 K marts, 11 Wal-Marts, six Targets and seven Grandpa Pigeon's plus such other retailers as Best Products, Service Merchandise and Woolworth's.

When survey participants were asked what store they visited in the past 90 days, two-thirds said Venture. K mart was second with nearly as many responses and Target was a close third. Wal-Mart was listed by a little more than one-third of respondents

for fourth place, a slim margin over locally-based Grandpa Pigeon's.

But when shoppers were asked if they shopped that store frequently—four or more times in the three-month period—two-thirds of the respondents who said they shop Wal-Mart also said they shop there frequently, the largest percentage of shoppers to answer that way.

K mart shoppers ranked second as frequent shoppers with more than one-half saying they shop K mart frequently.

More than one-half of the shoppers who said they shop Venture said they shop there infrequently, the survey revealed.

When it comes to actually buying merchandise when a shopper is in a discount store, Wal-Mart customers made a purchase nine of 10 times, compared to nearly that much by Grandpa Pigeon shoppers and more than eight of 10 times by K mart customers.

Venture and Woolworth shoppers also made purchases slightly more than eight out of 10 times, and Target customers reported making a purchase slightly fewer than eight out of 10 times. Best and Service Merchandise customers made purchases fewer than

(Continued on page 113)

K MART/WAL-MART/TARGET

MARKET STUDY: ST. LOUIS



Wal-Mart provides its St. Louis customers with lower prices on more items than its two rivals, K mart and Target. On a market basket of items in this region, Wal-Mart had the 'lowest' price on 32 items, compared to 26 for Target and 13 for K mart. (DSN photo)

St. Louis:

Wal-Mart Plans Major Assault in Market Area

(Continued from page 109)
A typical 1,800-square-foot new home in this area cost an average of \$85,030 during the second quarter of this year, Taylor said.

Last year, the St. Louis region tallied \$16.1 billion in retail sales, making it the 13th largest region in this category, according to S&MM. These sales reflect an increase of 5 percent over 1985. Per household retail sales were \$18,181 last year compared to \$17,622 the year before, an increase of 3 percent.

General merchandise store sales in the region were ranked 11th in the nation by S&MM with nearly \$2.3 billion in receipts, an increase of 4.3 percent over the year before.

St. Louis-area residents have improved their buying power over the last year, too, according to S&MM. Effective buying income or EBI, a measure of one's ability to buy, totaled \$31.4 billion, up 5.7 percent.

Suburban EBI also rose between the 1986 and 1987 S&MM reports, from \$23.2 billion to \$24.7 billion, and median household EBI rose from \$26,667 in 1985 to \$27,518 in 1986. Households with EBI's of \$50,000 or more surged more than 13 percent to 157,600.

These statistics provide fertile ground for retailers. And for discounters, St. Louis is a very competitive market that is heating up. The three top discounters, K mart, Wal-Mart and Target, all have multiple store locations here as do other top discounters, such as Venture, Marshalls, Service Merchandise and Grandpa Pigeon's. And, they all advertise aggressively.

Wal-Mart's interest in St. Louis has not intimidated its competitors, they say. Instead, Wal-Mart poses a "definite challenge," not just because of the numbers of new stores entering the market but more due to the locations of the new units. Many of the new Wal-Mart stores will get suburban addresses, placing

them face-to-face with their competitors instead of on the fringes of other discounters' marketing areas.

Exactly what the effects of this lopsided expansion will be on the local retailing community is still uncertain. But one local retailer said he feels "there will be a shootout and somebody who is really not a force here will not make it. I'm not sure there is enough business for everyone."

As usual, the battleground will be in commodity-type products, such as health & beauty aids and household chemicals.

So far, no one is surrendering to market forces, current or future.

At Grandpa Pigeon's, where the typical customer is a blue-collar male—not predominantly female like its competitors—expansion, however slow, is vital.

"We face encroachment from other retailers. We must grow or be buried," said president Holley, adding that "standing still is dying."

His strength, he feels, is rooted in his customer, who is shopping for hard lines merchandise, not the soft lines products most of his competitors are emphasizing.

In addition, variety and depth of merchandise, which spans most every department except apparel, plus management's proximity to store sites combine to help keep the small company current on market changes and perhaps even provide it with an advantage over the competition with respect to store cleanliness and stocked shelves.

In fact, a recent DSN visit to a number of St. Louis-area discount stores revealed numerous out-of-stocks and untagged merchandise, especially at Target, and to a lesser degree at K mart.

In St. Louis, however, the nation's three largest discounters play second fiddle to locally-based Venture stores, according to research conducted last summer by the St. Louis Post-Dispatch.

MARKET BASKET: St. Louis, Missouri

Prices on 65 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	\$ 26.97	\$ 24.58	\$ 23.49
Black & Decker 7/4-in. circular saw, No. 7308	31.97	31.96	31.99
Black & Decker Dustbuster, No. 9330	27.87	24.64	22.99
Duracell 9-volt battery, 1-pack	1.99	1.98	1.89
Stanley saw, 26-in., 8-pt., No. 15350	7.97	4.78	7.99
Filler paper, wide-lined, 200-count	0.69	0.63	0.57
Crayola marker, broad, 8-count	2.19	1.96	2.19
Corning Visions 6-piece set, V-300-N	27.66	24.96	28.99
Sunbeam Oskar, No. 14081	57.88	59.68	49.99
Regina 3-speed Elektrikbroom vacuum, No. HB7839	39.99	39.43	39.99
Eagle clear juice bottle, 1-qt., E2755	1.05	1.00	1.19
Ekco Bakers Secret 5/4-in by 9/4-in. loaf pan	3.29	2.46	2.49
Rubbermaid twin sink dish drain, No. 1180	4.83	2.96	2.99
Fram oil filter, PH8A	2.99	2.57	2.79
Armor All, 16-oz.	4.99	4.47	4.99
Turtle Super Hard Shell paste, 14-oz, No. T222	3.39	2.97	3.39
Borden Rain Dance paste, 14-oz, No. 0245N	5.49	5.49	5.69
Quaker State Deluxe motor oil, 10W40, 1-qt.	0.99	0.98	0.99
Prestone antifreeze, 1-gal (Prestone II or Advanced)	4.69 ¹	3.94 ²	4.89 ¹
STP oil Treatment, 15-oz.	1.36	1.38	1.39
WD-40 aerosol, 12-oz.	1.54	1.64	1.89
Ford Motorcraft oil filter, FL400A	2.99	2.93	2.99
Texaco Havoline motor oil supreme, 10W40, 1-qt.	0.99	0.78	0.78
Zero 33 Classic S.C. reel	12.97	12.97	17.99
Wilson football, official size, leather, F1414	16.97	18.97	19.99
Wilson Pro basketball, synthetic leather, No. 1000	11.97	19.97	9.99
Spalding Larry Bird basketball, synthetic leather	29.97	14.93	12.99
Wilson tennis ball, can of 3	1.97	2.18	2.09
Prerecorded videotape, Disney Children's Classic	14.95	9.96	14.99
Compact disc, 10-in., Madonna "Who's That Girl"	17.33	14.77	12.99
Album LP, Whitney Houston	8.77	8.46	8.99
Sorry board game, No. 390	9.94	10.48	10.49
Scrabble, No. 17	8.67	8.53	6.99
Fisher-Price Little People/Little Farm, No. 2501	19.97	18.94	21.96
Fisher-Price Chatter Telephone, No. 0747	7.97	6.48	6.99
Yahtzee, E950	5.47	4.44	4.99
Candyland board game, 4700	6.69	6.58	9.99
Coleco Cabbage Patch Doll, Splashing Kids	29.97	27.86	24.99
Coleco Cabbage Patch Doll, Babies	22.94	19.86	22.99
Ivory conditioner, normal, 15-oz.	1.59	1.65	1.59
Agree conditioner, reg., 15-oz.	2.39	1.94	1.99
EPT pregnancy test kit	14.98	9.84 ³	9.89
Trojan condoms, regular, 12-pack	4.15	2.48	2.39
Tampax tampons, regular, 40-count	2.69	2.77	2.79
Johnson & Johnson baby powder, 14-oz.	2.18	1.96	2.19
Mennen Speed Stick deodorant, reg., 2.5-oz.	1.99	1.86	1.59
Crest tartar control toothpaste, 6.4-oz.	1.59	1.56	1.19
Colgate regular toothpaste, 7-oz.	1.29	1.48	1.29
Listerine, 32-oz.	2.89	2.97	2.89
Dexatrim max. strength capsules, 40-pack	6.97	7.12	7.19
Secret Solid deodorant, 2-oz.	2.49	1.97	1.99
Gillette Foaming shave cream, 11-oz.	1.97	1.67	1.29
Nyquil Nighttime cold medicine, 10-oz.	3.19	4.84	3.09
Gillette blade cartridges, 10-pk.	3.94	3.87	3.94
Alka Seltzer Plus, 36-count	1.79	1.94	1.69
Kodak disc film, twin pack, 150/200, 30-exp.	3.99	4.77	4.19
Polaroid Spectra System	139.99	127.67	139.95
Polaroid Sun 640, 600 film	8.69	8.67	8.99
Polaroid Spectra film pack	8.97	8.67	8.29
Polaroid SX-70 film	8.69	8.67	8.29
Time Zero SX-70 film, twin pack, 20-exp.	15.97	16.58	15.39
Kodak 110 color print film, 12-exp.	2.38	2.07	1.89
Black & Decker 3/8-in. drill, No. 7144	25.97 ⁴	26.39	22.99
Bic Biro, medium, blue, 10-pk.	1.38	1.34	1.39 ⁵
Black & white TV, 12-in.	69.00	62.87	57.99
TOTAL MARKET BASKET	\$831.41	\$771.17	\$772.30
Lowest in Market	13 items	32 items	26 items
	18.5%	49.2%	40%
Highest in Market	32 items	11 items	28 items
	49.2%	16.9%	43.0%

¹Advanced formula; ²Prestone II; ³EPT Plus; ⁴7143; ⁵Bic Stik

Market baskets were conducted in October 1987 in area stores.

Source: DSN research

The survey, which polled 1,601 people, found that more St. Louis-area residents shop Venture more often than they do its competition, buy more often when they shop at Wal-Mart but spend more money at Service Merchandise.

When it comes to providing the customer with a good value, Wal-Mart topped the rankings in the Post-Dispatch survey (see story, page 109).

Based on an October DSN visit to St. Louis, which focused attention on K mart, Wal-Mart and Target, Wal-Mart provided shoppers with lower prices on more items

than its two competitors, but only by a small margin.

A market basket of 65 of the same or similar items in nine merchandise categories revealed Wal-Mart's total of \$771.17 as the lowest of the three chains—but only by \$1.13 over Target.

The same market basket of goods at K mart cost \$831.41, or 7.8 percent higher than Wal-Mart and 7.7 percent higher than Target.

Wal-Mart also had more "lowest priced" merchandise of the three in this market, 32 items, compared to 26 for Target and 13 for K mart.

Likewise, K mart had more of the "highest in the market" prices, 32 items, versus Target's 28 and Wal-Mart's 11.

A quick price review of select items at Venture and Grandpa Pigeon's also revealed that Grandpa's prices compete most often with those of Wal-Mart and Target. Venture's prices more closely resemble those of K mart.

In fact, of 25 same or similar items found at K mart, Wal-Mart and Target, Venture was as high or the highest priced on seven items, and the lowest or tied for the lowest on two items.

Home-Town Venture Visited Most Frequently by St. Louis Shoppers

(Continued from page 109)
seven of 10 times when in those stores, the survey said.

But when the customers make a purchase, Service Merchandise rings up the largest ticket, nearly \$50, followed by about \$45 at Best Buy and just more than \$35 at Venture. Wal-Mart customers spent about \$30 and slightly less than that was reported by shoppers of K mart, Target and Grandpa Pigeon's.

St. Louis survey respondents said Wal-Mart gives them the best value for their money, with one in four saying so, compared to one in five who answered Venture and roughly one in 10 who said Target, Grandpa's or K mart.

The store with the highest quality merchandise is perceived to be Venture, the survey reported, with roughly one-quarter of the respondents naming the O'Fallon, Mo.-based company. Venture was followed, in order, by Wal-Mart, Target, and K mart, which was tied with Service Merchandise.

With women 35 and under, Venture topped the list again for having the highest quality merchandise, followed by Wal-Mart, Target, Best, Service Merchandise and K mart.

Women over 35 voted similarly, but K mart's standing moved to fourth, switching places with Best.

Grandpa Pigeon's came in last among women shoppers for quality merchandise, but females only comprise 20 percent of the company's customer base.

Venture Tops for Quality

Women shoppers gave top honors to Venture when evaluating quality merchandise.

Shoppers spending less than \$500 on women's clothing also gave Venture the top spot for having the highest quality merchandise, followed by Wal-Mart, Target and K mart.

With shoppers spending more than \$500 on women's clothing, Venture's first place position strengthened. Wal-Mart fell to third place behind Target.

K mart's position weakened substantially with these shoppers. Its standing fell to fifth behind Service Merchandise, which does not sell apparel.

When it comes to perceived value, women, both 35 and under and 35 and over, gave top honors to Wal-Mart, as did women with annual household incomes exceeding \$35,000. But among women with yearly household incomes below \$35,000, Venture was perceived to offer the best value for their money in St. Louis.

Venture also took the top spot for perceived value among shoppers spending more than \$500 on women's clothing, but came in second to Wal-Mart among shoppers spending less than \$500 on women's clothing.

Like most markets, St. Louis shoppers also "cross-shop" other discounters.

For example, the two-thirds of the shoppers who said they shop at Venture also said they shopped at K mart and Target. And three-quarters of the surveyed K mart shoppers said they shopped Venture and more than half, Target.

Approximately eight out of 10 Target shoppers reported visiting a Venture store in the period prior to the survey and two-thirds said they shopped at K mart.

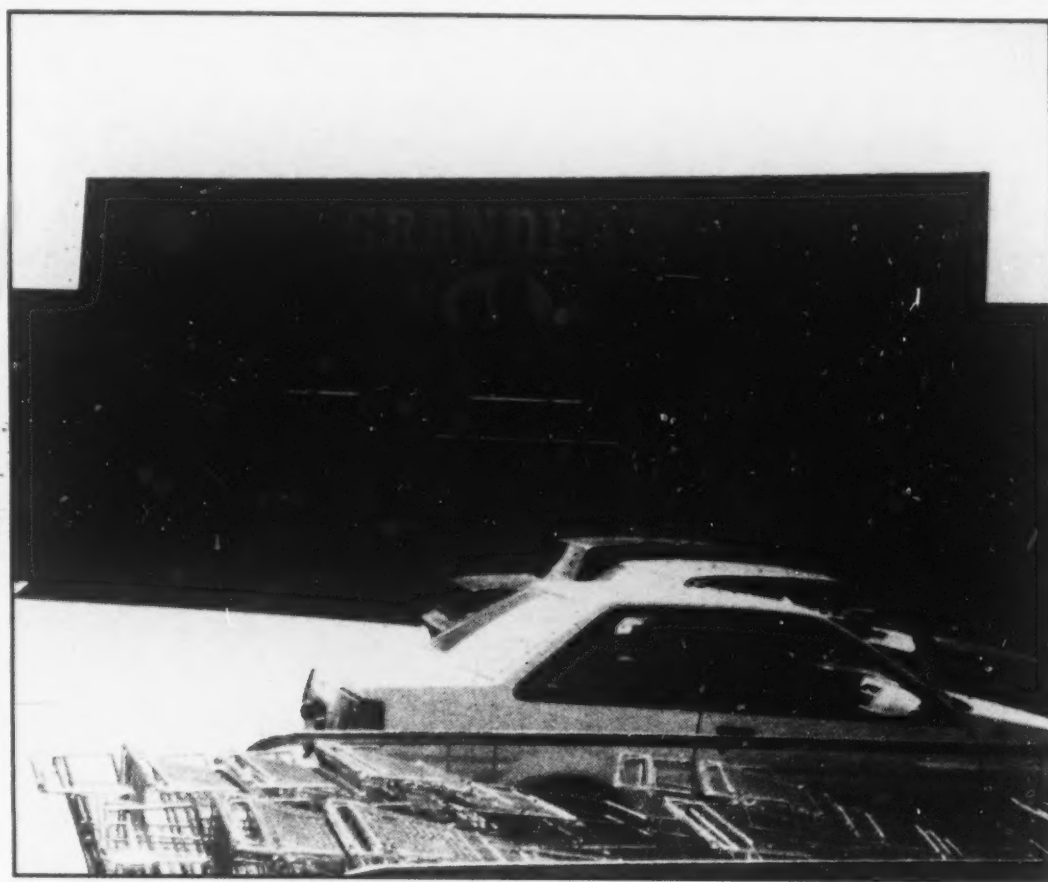
More than seven of 10 Wal-Mart shoppers said they went to a K mart store in the three months before the survey was taken and more than two-

thirds said they went to a Venture store.

Roughly three-fourths of Grandpa's customers said they visited a Venture store and nearly as many said they also shopped at K mart and Target.

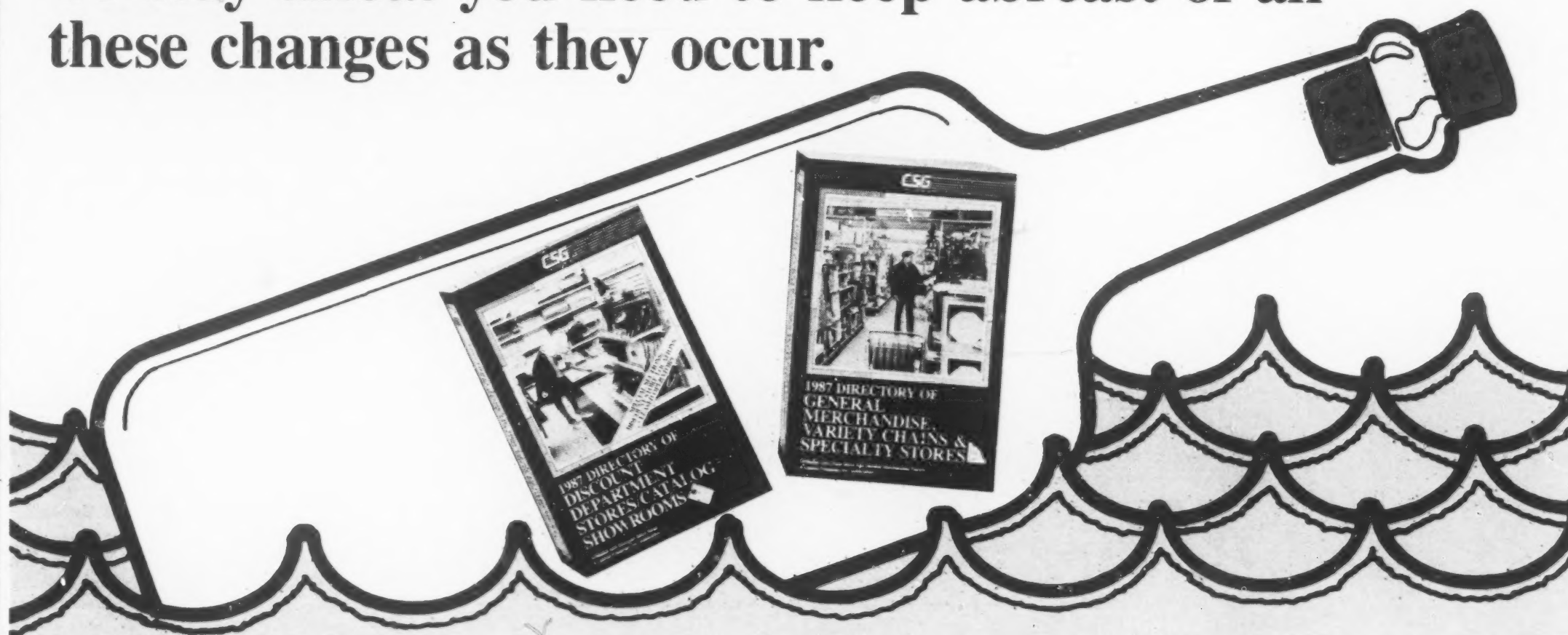
About eight of 10 Best shoppers said they visited Venture and nearly as many said Target. Seven of 10 Woolworth shoppers visited Venture stores and two-thirds said K mart.

And more than seven of 10 Service shoppers said they shopped at Venture and K mart and nearly as many said Target.



In St. Louis, locally-based Grandpa Pigeon's helps to stimulate the discount store market which also contains Venture, K mart, Wal-Mart, Target and a host of specialty retailers. (DSN photo)

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The Dallas metropolitan area is estimated to have a population of over 3.5 million, making it the sixth largest retail market in the country.

Dallas Discounters Thrive as Market Regroups

DALLAS — Like its beloved but erratic Cowboys, the Dallas area has endured a period of rough sledding after a decade of untrammelled success. At about the same time that the NFL Cowboys failed to make the play-offs for the first time in their history, the high-flying Dallas economy was tackled for a loss.

According to Dallas partisans, the worst is over and the city and its 1 million city-limit residents are on the rebound; however, others caution that the road back could be a slow and rocky one.

Tom Lewis, senior vice president, economic development for The Dallas Partnership, a local business group, said that he felt the dizzying heights of the boom may have resulted in unrealistic expectations. "We're going to have to learn to settle for above average" economic growth, he said. "We had kids just out of college making \$100,000 selling real estate here; that's in the past now."

Despite its well-publicized troubles, Dallas remains a relatively affluent market. For instance, the city is the leading per capita consumer of trendy and expensive BMWs and car telephones. Average income in Dallas County is \$27,015, and when some wealthier suburbs are factored in, the figure rises to \$28,110, as of 1986.

Although the city's population is estimated at slightly under 1 million, metropolitan area population exceeds 3.5 million, making it the sixth largest retail market in the country.

Because few of the city's major employers are directly involved in the oil business, Dallas was not hit as hard by the near collapse of the oil market as was the rest of the state. Therefore, although Dallas went into recession more slowly than did other Oil Patch markets, it may come out more slowly as benefits of a resurgence in oil trickle in.

'We're going to have to learn to settle for above average economic growth.'

—Tom Lewis, senior vice president, economic development, The Dallas Partnership

Retailers evidently have maintained faith in the market, despite reports that Dallas may be seriously over-stored. K mart (32 stores), Wal-Mart (15 plus two Sam's Wholesale Clubs and a Hypermart USA due soon) and Target (15) all have commanding presences here, and about a dozen other discounter chains,

including Marshalls, Loehman's, Gibson's, Best Products and Service Merchandise, share the market.

Because of its favored status as a test market, Dallas is also inundated with specialty retailers, from sporting goods giants Oshman's and Hermans through home products retailers like The Home Front, to apparel outlets Hit or Miss and Ross Stores.

Dallas, with its high concentration of new wealth, also boasts a wide selection of department stores, including Bloomingdale's, Macy's, Dillard's, Lord & Taylor and Neiman-Marcus, which has its headquarters here. Mass merchandisers Sears, J.C. Penney and Montgomery Ward are also well represented.

The booming retail market came to a screeching halt in 1985, although new construction continued apace for a bit, effectively doubling the commercial space vacancy rate from a 1984 level of about 15 million square feet to a little over 30 million square feet in 1986. Retail sales were virtually flat during the period, while store count increased significantly, resulting in a lot of empty aisles.

Evidently, discount aisles stayed busy. K mart's presence increased by about 50 percent during the two-year period, and Wal-Mart continued its strategy of ringing the city. Both also made significant area investments:

Department store sales (including discounters) in Dallas grew only 3.9 percent in 1986.

However, the total retail market grew even less—only 1.8 percent in that period.

K mart in a new 450,000-square-foot distribution center for its K mart Apparel Group; and Wal-Mart in its new Hypermart USA, which will be one of the country's largest stores when it opens this month.

The period also saw the debut of American Wholesale Club, which opened membership warehouse clubs in Plano and Mesquite in 1986 and 1987, respectively.

But is all this optimism warranted? That depends on whom one talks to. Unrestrained Dallas boosters point to the leveling-off of unemployment, the influx of white collar employers like J.C. Penney (which recently relocated its headquarters here from New York), its relatively young and affluent population and its independence from the oil business as factors in an upcoming turnaround.

The optimists have received a boost lately from an October report from Salomon Brothers, the New York-based investment firm, stating that Dallas has bottomed out economically, and now represents a good bargain for poten-

tial investors. According to the report, with a few exceptions, most weak sectors of the Texas economy "appear to have already washed out and are now poised for economic recovery."

And, just in time, at that. Dallas, a \$31.5 billion retail market in 1986, grew only 1.8 percent over 1985 in combined retail sales. By contrast, Boston grew 6.2 percent and Detroit gained 8.3 percent, while Houston, one of the hardest hit areas of the Oil Patch, recorded declining sales for two straight years.

Department store sales (including discounters) in Dallas outperformed the retail market as a whole, but not by much, with a still lackluster 3.9 percent rise over 1985. Boston, by way of comparison, nearly doubled that with a 7.5 percent gain in department store sales.

Dallas observers feel that most indicators favor their home town. Unemployment, historically below the national average, rose sharply earlier this year, but seems to have leveled off. Commercial and

(Continued on page 117)

Dallas Discounters Thrive as Market Regroups

(Continued from page 115) residential rentals, off sharply for the past year, appear to be strengthening, although this will probably remain a sore point for the foreseeable future, with the massive vacancy rate forestalling any new construction.

According to the Dallas Partnership, the influx of white collar jobs and new residents has risen sharply in the past year, highlighted by Penney's decision to move its 4,000 headquarters jobs from New York to the Dallas suburb of Plano.

Others moving to Dallas or opening or expanding local operations include Motel 6, National Data Corp., Uniden, Sanden International, Heritage Media, Gump's Department Stores, Mastsushita, Nautilus Sports and K mart Apparel Corp.

The appearance is one of dramatic growth among a group dear to the hearts of retailers, but Dr. Harold Gross of Southern Methodist University's Center for Enterprising of the Cox School of Business warns that the appearance may be deceiving.

"Net growth in white collar positions is probably zero," he said. "Dallas is home to many regional headquarters, and as American businesses contract, they're closing up their regional offices."

A Shifting Market

Gross said that most real population growth in Dallas has been among blue collar workers, causing a shift (as opposed to a shrinkage) in the market. Those with the most to gain from this shift are discounters like Wal-Mart and K mart, as well as upscale retailers. Those in the middle are, he said, taking it on the chin, resulting in a shakeout.

For the short term, Gross said that he expects a slow Christmas at retail. "There hasn't been a pick-up in retail employment," he said. "It appears that retailers are increasing hours of underemployed workers, but they're not hiring any new ones." He typified that situation as "rare" at holiday.

Longer term, however, Gross has newfound hope, brought on, surprisingly, by Wall Street's Black Monday. "Before the crash, we were expecting a national recession to start in the second quarter of next year which would have crimped a recovery in Dallas," he said, adding that the crash probably has taken pressure off the economy, leading him to revise his recessionary projection. "This will enhance chances for recovery," he concluded.

Dick Palmer, executive vice president of American Wholesale Club, the membership warehouse based near here, is a bit more optimistic for the short term. "It looks like a good Christmas, if a little later than usual," he said. Although American Wholesale's sales are "strong," Palmer doesn't see that as a sign of recovery in the market area. "The

warehouse club business thrives in downturns," he said, "so our sales record could be taken two ways."

However, he noted that retail footage in the Dallas area seems to be filling, and overall, he said he felt "comfortable with the resiliency Dallas has shown," and its ability to come back.

In a market basket survey conducted by DSN in October, the three major discounters in the market (K mart, Wal-Mart and Target) were compared for everyday low price on a preselected list of items.

Wal-Mart was clearly the lowballer in the Dallas market. Of the 30 products carried by all three, Wal-Mart was the lowest priced on 56.6 percent of the items. K mart was the lowest on one-third of the items, and Target the lowest about one-quarter of the time.

K mart was highest in the market among the Big Three chains on just over one-half the products, with Target right behind with 46.6 percent. Wal-Mart had the highest prices on only 13.3 percent of the items.

It's worth noting, however, that Wal-Mart virtually never puts anything on sale. K mart, on the other hand, is highly promotional, and its promotional prices were not included in the survey. The same held true at Target.

The stores visited, however, reflected the price results in a variety of ways. Wal-Mart was routinely more deeply stocked and busier than either of the others. Target had distinct out-of-stock problems in its consumer electronics, stationery and photo departments. In CE, Target actually had boxed understock of items (televisions, VCRs and stereo systems) which were not displayed or visibly priced.

As is Wal-Mart's wont, its

MARKET BASKET: Dallas, Texas

Prices on 30 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	\$26.97	\$24.58	\$23.49
Black & Decker 7 1/4-in. circular saw, No. 7391	39.94	39.96	39.99
Black & Decker 3/8-in. drill, No. 7144	31.99	29.97	26.39
Black & Decker Dustbuster, No. 9330	22.99	24.64	22.99
Yahtzee dice game, No. E950	4.96	4.44	4.99
Compact disc	12.99	13.96	12.99
Album, single LP	6.96	6.96	6.99
Ivory conditioner, normal, 15-oz.	1.69	1.68	1.69
Agree conditioner, reg., 15-oz.	2.69	1.94	1.99
Head & Shoulders shampoo, 11-oz.	2.49	2.44	2.99
Crest tartar control toothpaste, 6.4-oz.	1.59	1.56	1.49
Colgate regular toothpaste, 7-oz.	1.47	1.48	1.49
Listerine, 32-oz.	2.39	2.47	3.39
Gillette Foamy regular shave cream, 11-oz.	1.87	1.28	1.69
Gillette Atra blade cartridges, 10-pak	3.94	3.87	3.94
Corning Visions, 2 1/2-qt. saucepan w/cover, No. V242N	18.96	15.96	14.99
Corning Visions, 6-piece set, No. V300N	24.96	24.96	27.99
Sunbeam Oskar, No. 14061, white	59.68	48.68	49.99
Regina 3-speed Electricbroom, No. HB7439	39.99	39.43	39.99
Conair Pro hair dryer, 1,250 watts, No. 085	12.99	9.86	12.99
Fram oil filter, No. PH8A	2.78	2.57	2.79
Turtle Super Hard Shell paste, 14-oz., No. T222	3.97	2.34	2.99
Gumout Jet Spray, 13-oz., No. 7450	1.79	1.47	1.59
Prestone antifreeze, 1-gal., advanced formula	4.59	4.64	4.89
Pennzoil Multi-Vis. 10W30 motor oil, 1-qt.	0.89	0.98	0.97
STP oil treatment, 15-oz., No. 3010702	1.26	1.27	1.29
Wilson synthetic leather basketball, Pro 1000	11.97	12.96	9.99
Coleman standard 2-burner stove, No. 425F499	30.97	29.96	30.79
Crayola markers, broad, 8-count	2.96	1.96	1.99
Bic 10-pack, Biro, blue, medium	1.52	1.34	1.39
TOTAL MARKET BASKET	\$384.21	\$359.61	\$361.13
Lowest in Market	10 items	17 items	7 items
	33.3%	56.6%	23.3%
Highest in Market	16 items	4 items	14 items
	53.3%	13.3%	46.6%

Market baskets were conducted in October 1987 in area stores.

Source: DSN research

Dallas stores are located primarily in out-of-the-way bedroom communities. Both Target and K mart chose highly visible locations, usually at or near exits on major highways. However, Wal-Mart seemed to draw just as much traffic as the other two chains.

Dallas, as a retail market, is emitting mixed signals. On the whole, discounters seem to be thriving. On the other hand, many restaurants were virtually empty, traffic at the indoor Galleria mall was relatively light, and someone had set up a succession of signs

above the Dallas Tollway begging motorists to purchase his \$300,000 house. "Must sell!" the first sign read. "Thanks, buy, buy" the last impromptu.

Like the Cowboys, Dallas seems to be going through a wait-and-see kind of year.



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Chains Jockey for Spots in Enigmatic Memphis

MEMPHIS, Tenn. — Here is a city where "Elvis lives," even though he is dead. Likewise, the city is rich but poor; employment is up but down; and business has never been better . . . or worse. It all depends upon which side of the Graceland fence you are on.

The birthplace of rock 'n roll is in the middle of an identity shift which, in a broad sense, has spawned economic growth. Discounters have nestled stores in the rift between the very rich and very poor, offering ambience that dollar outlets lack, and pricing that undercuts newcomers like Polo/Ralph Lauren and Banana Republic.

Service and distribution occupations are quietly replacing manufacturing and agriculture as the dominant Memphis industries. Federal Express, Northwest Airlines and Holiday Inn are among the top employers.

Retail employment as a per-

centage of the workforce has remained fairly steady during the past 15 years despite changes in the core economy, and is expected to grow in tandem with the overall market in the years ahead.

The city's growth has been strong and fairly constant during the past five years, according to the Memphis Business Activity Coincident Index, charted by the Bureau of Business & Economic Research at Memphis State University. But this growth has been uneven.

The 20 percent poverty level in Memphis is among the highest of U.S. metropolitan areas, but swelling pockets of affluence create a misleading, inflated average income. The polarity among those who have and those who have not is intensifying, as those who can afford to move to the suburbs leave the impoverished behind.

Other statistics indicate that in 1980, nearly half of Memphis' black population fell

below the poverty level, while under 15 percent of whites were below that level. With nearly 400,000 blacks within its boundaries, Memphis ranks 13th among all U.S. cities, higher than Dallas, Cleveland and Birmingham.

Of Memphis city school children, about 80 percent were at or below the poverty level, and, according to the local Economic Planning department's best estimates, the situation has not changed much in the past seven years.

Last year, there were about 39,000 households that generated an effective buying income (EBI) of \$50,000 or above, according to *Sales and Marketing Management* magazine, or about 12 percent of Memphis households.

This year, the number of households rose by 10,000, and about half of these fell into the \$50,000 or more EBI bracket.

Despite rising affluence, the city's median EBI remains about \$3,000 below the U.S.

EBI median, which reached \$24,632 this year.

The dollar stores—Family Dollar, Dollar General and Bargain Town USA—primarily serve the center city region and Western Memphis. In this city, Family Dollar operates 12 stores, Dollar General nine, and Bargain Town USA eight.

Zayre, with five stores, pursues a broader customer base—reaching to the consumer who has a little more disposable income—but is a

(Continued on page 120)

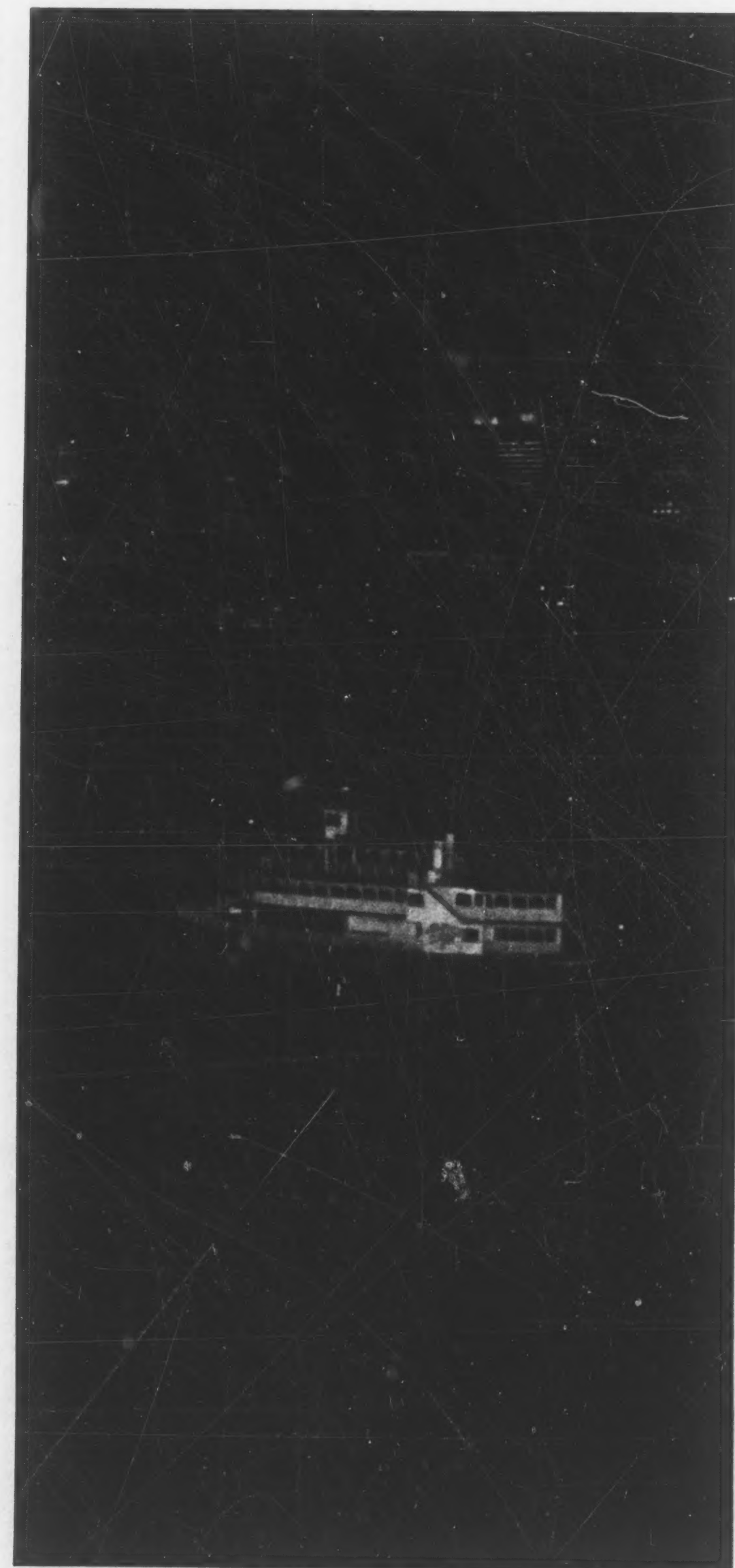
MARKET BASKET: Memphis, Tennessee

Prices on 59 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	\$ 22.76	\$ 24.58	\$ 23.49
Black & Decker 7 1/4-in. circular saw, No. 7391	46.99	39.96	39.99
Black & Decker 3/8-in. drill, No. 7144	26.97	29.97	26.39
Duracell 9-volt battery, 1-pak	1.56	1.56	1.59
Stanley saw, 26-in., 8-pt., No. 726	4.71	4.78	4.79
Stanley Workmaster hammer, No. ST-1-1/2, 16-oz.	11.72	12.56	12.99
Stanley Powerlock tape measure, No. 33-116	8.46	8.86	12.49
Kodak disc film, twin pack, No. 1552633	4.37	4.26	4.29
Polaroid Sun 660 camera	76.88	72.93	79.99
Kodak 110 color print film, 12-exp.	2.38	2.18	2.19
Sorry board game	8.53	8.96	9.99
Scrabble board game, No. 17	7.88	8.63	7.69
Monopoly board game	8.96	8.53	8.79
Nintendo video game set	139.00	138.74	139.99
Crayola Crayon, 64-ct., with sharpener	2.77	1.97	1.99
Hasbro Pogo Bal	14.97	12.97	14.99
My First Barbie	5.97	5.96	7.99
Fisher-Price Little People/Little Farm	19.96	14.94	21.96
Fisher-Price Speak and Spell	44.88	41.63	39.99
Worlds of Wonder Lazer Tag game kit, No. 360032-11	37.77	37.77	36.36
Mattel Captain Power action figure	4.37	3.97	3.99
Prerecorded Video, Disney Cartoon Classic	14.88	12.83	9.99
Compact disc, Madonna	13.44	14.77	12.99
Album, single LP, Madonna	9.87	6.96	6.99
Ivory conditioner, normal, 15-oz	1.50	1.50	1.49
Agree conditioner, regular, 15-oz.	1.94	1.94	1.99
Head & Shoulders shampoo, 15-oz.	2.96	2.52	2.99
Bausch & Lomb sensitive eyes saline solution, 12-oz.	1.97	1.50	1.49
Trojan regular condoms, 12-pk.	3.66	2.03	2.39
Johnson & Johnson baby powder, 14-oz.	1.77	1.77	1.99
Mennon Speed Stick deodorant, reg., 2.5-oz.	1.76	2.16	1.79
Crest tartar control toothpaste, 6.4-oz.	1.77	1.48	1.39
Colgate regular toothpaste, 7-oz.	1.36	1.48	1.39
Dexatrim maximum strength caplets, 40-ct.	6.67	6.21	7.19
Secret solid deodorant, 2-oz.	2.43	2.24	1.99
Atra blade cartridges, 10-pk.	3.49	3.48	3.49
Alka Seltzer, 36-ct.	2.19	2.12	1.99
Halls Mentholypus, 30-ct.	1.14	0.81	0.99
Corning Visions 2 1/2-qt. saucepan, V-2 1/2-N	17.97	15.96	17.49
Corning Visions 6-piece set, V-300-N	24.96	24.96	22.99
Sunbeam Oskar, No. 1408	59.68	48.68	49.99
Oster Galaxie Cycle blender, No. 869-16	23.94	25.94	23.99
Clairel Benders, No. 3360	29.97	26.84	22.99
Ekco Bakers Secret loaf pan, No. 64470	2.87	2.46	2.49
Armor All, 16-oz.	4.47	4.47	4.49
Turtle Super Hard Shell paste, 14-oz.	3.97	2.97	2.99
Borden Rain Dance paste, 14-oz.	6.97	5.64	5.49
AC-Delco spark plugs, R45T5-8B	9.52	9.84	9.99
Quaker State Deluxe motor oil, 10W40, 1-qt.	0.98	0.98	0.99
Castro GTX motor oil, 20W50, 1-qt.	0.98	0.94	0.97
Pennzoil Multi-Vis. motor oil, 10W40	0.98	0.98	0.99
STP oil treatment, 15-oz.	1.77	1.07	1.38
WD-40 aerosol, 12-oz.	1.88	1.64	1.64
Ford Motorcraft oil filter, FL400A	3.39	2.93	2.99
Texaco Havoline motor oil, 10W40, 1-qt.	0.98	0.78	0.68
Coleman standard 2-burner stove, No. 425F499	33.97	34.26	30.79
Crayola markers, broad, 8-ct.	1.67	1.96	1.99
Papermate 10-pk pens, medium blue	1.38	1.34	1.39
Liquid Paper, white, 0.6-oz.	1.58	0.82	1.29
TOTAL MARKET BASKET	\$785.78	\$766.97	\$772.46
Lowest in Market	16 items	33 items	18 items
	27.1%	55.9%	30.5%
Highest in Market	32 items	10 items	21 items
	54.2%	16.9%	35.5%

Market baskets were conducted in October 1987 in area stores.

Source: DSN research



Although riverboats still glide by Memphis, the city's former dominant industries of manufacturing and agriculture are being quietly replaced by service and distribution occupations.

MARKET STUDY: MEMPHIS**K MART/WAL-MART/TARGET**

A recent Memphis market basket showed Wal-Mart had the lowest price 55.9 percent of the time, but didn't have the lowest total dollar figure.

(DSN photos)

Shift in Identity For Memphis Is Helping Economy

(Continued from page 119)
not too distant neighbor to the dollar outlets.

At the other end of the spectrum, a wave of upscale specialists have set up shop in the affluent Southeast/Germantown area.

Apparel off-pricers Burlington Coat Factory and Marshalls each operate two stores here.

K mart, Wal-Mart and Target have carved their niche between the two extremes,

Memphis' median EBI remains about \$3,000 below the U.S. EBI median, which reached \$24,632 this year.

neighboring the affluent communities somewhat more closely than the predominantly black, impoverished center city.

K mart operates seven discount stores here; Target and Wal-Mart each have four. In addition, Wal-Mart has two Sam's Wholesale Clubs in Memphis.

Pricing strategies at the three chains that dot the mid-Eastern Wolf River divide became clear after tabulating prices on a 59-product market basket in eight store departments.

Among the three chains, Wal-Mart had the lowest price on 33 items, or 55.9 percent of the total market basket, but did not have the lowest total dollar figure. While Target was priced lowest on only 18 items, or 30.5 percent of the market basket, the savings on these items were more pronounced than at Wal-Mart.

Wal-Mart might have lower prices, but only by a few pennies. When Target decides to have the lowest price on an item, margins are cut to the bone. Wal-Mart's total market basket on the 59 identical products was \$766.97, while Target's was \$772.46.

The Wal-Mart and Target stores where the market basket was conducted by DSN were located on secondary roads. The K mart visited to compile the market basket

(Continued on page 121)

Sell copper. Earn copper.

If you're only selling Champion, AC, Autolite, NGK, Motorcraft, or ND spark plugs, you're missing out on some real money.

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K MART/WAL-MART/TARGET**MARKET STUDY: MEMPHIS**

While Target was priced lowest on only 18 items, or 30.5 percent, the savings on those items were more pronounced than its competitors' best offerings. (DSN photos)

Big Three Carve Niches Between Affluent and Poor

(Continued from page 120) was situated on Summer Avenue, a major thoroughfare. This store's prices were the highest of the three chains 54.2 percent of the time. K mart had the lowest price on 27.1 percent of the items, primarily on hardware and health & beauty aids merchandise.

Merle McGrouder, regional manager for Bargain Town USA in Memphis, said Wal-Mart, a relative newcomer to the market, is the dominant discounter despite its comparatively few stores. "Wal-Mart is more aggressive. K mart has become complacent, and, quite frankly, I think [Wal-Mart] will be catching up with them soon," he said. Bargain Town is a Birmingham, Ala.-based, 52-store chain that targets the city's low-income and welfare recipient shoppers.

Those who have money in Memphis are not reluctant to spend it, however. Per household retail sales top \$19,000, exceeding the U.S. average by nearly \$3,000.

Catering to the emerging upper class, tenants such as Polo/Ralph Lauren, Banana

Per household retail sales top \$19,000, exceeding the U.S. average by nearly \$3,000.

Republic and Crabtree & Evelyn are filling newly-constructed shopping centers and malls along the burgeoning Eastern rim of the city. But if 1988 retail sales are as expected, these outlets could be losing sales to the discount stores that form a reef between the elite and the impoverished.

David Bourne, research associate at the Bureau of Business and Economic Research at Memphis State University, projected that retail sales will be sluggish if not completely flat next year due to overall instability in the financial market.

"If some retrenchment of the Memphis economy does occur, the new upscale shops will likely be hurt more than the discount chains," Bourne said.

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The Ultimate Spark Plug.



BOSCH

Austin's Yuppies Find Target Most Appealing

AUSTIN, Tex. — Flush with highly-paid, highly-educated workers from the University of Texas, state government and high-tech concerns such as IBM, Austin has developed a classic Yuppie population.

"You see a lot of BMWs on the streets," said Jerry Olson, co-founder of Johnston, Olson Associates, a demographics consulting firm.

Thanks to employment at the university, in state government and with research and development companies, Austin boasts a service economy relatively insulated from the Oil Patch woes that have hit other Texas cities, particularly Houston.

The state capital is emerging as an R & D, high-tech center for the Southwest, with a predominately white-collar work force. More than 200 high-tech companies employ an excess of 30,000 persons.

Nonetheless, a glut of empty office buildings, a slump in population growth from 6.7 percent in 1985 to perhaps zero in 1987, the loss of 4,100 construction jobs this year and a continuing decline in re-

tail sales that began last year shows that the state capital suffers somewhat along with the rest of the Texas economy.

Local economists say Target dominates the Austin market, even though K mart has four stores compared to Target's two.

tail sales that began last year shows that the state capital suffers somewhat along with the rest of the Texas economy.

Given that upscale work force, Target dominates the Austin discount store market, local economists say, even though K mart operates four stores here, compared to two for Target.

A Wal-Mart store, located 15 miles from Austin in a booming R & D area, and a Sam's Wholesale Club, owned by Wal-Mart, offer additional discounting competition.

A number of catalog showrooms round out the discount picture: two Service Merchandise units, two Edison's, a regional chain, and a Best Products unit.

Of Austin's population of 732,900, about 10 percent are black and 20 percent Hispanic.

"Austin is relatively sophisticated," Smith said. Weighted with scientists and engineers, its work force of 412,600 is better educated than the national average. Of those over age 25, 39 percent have earned college degrees, he said, compared to 25 percent nationally.

Examples of high-scale employment: IBM employs about 14,000 at three facilities in Austin and developed the second generation personal computer here; 3M is building a giant electronics facility that

will employ 5,000; about 11,000 work at the University of Texas, and about 40,000 work in state government.

Average and median household incomes run 10 percent to 15 percent above the state average. Household income in Austin averages \$38,500 a year, up from \$37,000 in 1986, the Austin Chamber of Commerce estimates.

The median household income, with half higher and half

lower, is \$29,700, finds the Scarborough Market Report commissioned by the Austin Statesman-American newspaper.

Of the three chains, Target dominates because it has better looking and bigger stores, along with better selection, said James F. Smith, economist for the Bureau of Business Research at the University of Texas. "A Target is more appealing because it

looks like a department store," he said.

"K mart's blue light specials don't attract as well here."

The 1987 Scarborough Market Report shows that 46 percent of Austin adults surveyed shopped at a Target during the previous 90 days. In comparison, 37 percent of adults shopped at a K mart. Wal-Mart shopping patterns weren't included.

Despite the upscale image of Target, its pricing fell in the middle in a market basket survey that DSN conducted. K mart was highest, while Wal-Mart was lowest.

For a market basket of 60 items ranging from power tools to razor blades, the bill at the Austin area Wal-Mart totaled \$1,009.92. It was lowest on 35 items, or 58.3 percent, and highest on seven, or 11.7 percent.

At K mart, the bill came to \$1,150.25. It was highest on 30 items, or 50 percent, and lowest on 19, or 31.7 percent.

Target fell in between, with a total bill for the 60 items of \$1,076. Its prices were lowest on 15 items, or 25 percent, and highest on 29, or 48.3 percent.

"It is pretty fascinating that Target is outpricing K mart," Smith said.

In Austin, the discount store count is low, he said. On the upper scale, Austin lacks any store on a par with Sacks, Nieman Marcus or Bloomingdale's.

Although included in the Austin metro area, Wal-Mart stores in San Marcos and Taylor are 30 and 40 miles out, too far to draw shoppers from Austin, said Angelos Ange-

A total of 46 percent of Austin adults surveyed shopped at a Target in the previous 90 days, and 37 percent at a K mart.

lou, chief economist for the Austin Chamber of Commerce. Residents of those two towns do, however, commute to jobs in Austin, he said.

Of the three chains, only Wal-Mart has disclosed expansion plans, Angelou said. Wal-Mart is considering a new store site only seven to eight miles outside of Austin, he said, and plans to add another Sam's Wholesale Club.

The timing of any expansion remains uncertain, Angelou said, because Austin's bloom from 1980 to 1985 has lost its blush.

The Austin economy had been growing at the rate of about 14 percent a year, Smith said, but has slowed to about 3 percent.

Population growth has flattened from 6.7 percent in 1985 and probably will hit zero for 1987, predicted Olson, the demographer.

A major home builder went bankrupt earlier this year, Olson said, and the large number of unsold homes on the market shows that the population boom that was driving the Austin economy has ended.

"Real estate is a killer," UT's Smith said. Developers put in place more non-residential construction in Austin in 1985 than in either New York, Philadelphia or St. Louis, he said.

(Continued on page 125)

MARKET BASKET: Austin, Texas

Prices on 60 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	\$ 26.97	\$ 24.58	\$ 23.49
Black & Decker 7 1/4-in. circular saw, No. 7391	49.97	39.91	39.99
Black & Decker 3/8-in. drill, No. 7143	25.97	21.96	26.39
Black & Decker Dustbuster, No. 9330	27.87	24.64	23.99
3M sandpaper pack, assorted, 5 sheets, No. 9005	1.89	1.88	1.79
Stanley Powerlock tape measure, No. 33-116	8.49	8.86	12.49
Kodak disc film, twin pack, No. 1552633	3.96	3.86	3.99
Canon Sure Shot Supreme, No. C13-2362	188.00	169.87	169.99
Time Zero SX-70 film, twin pack, 20-exp.	14.99	16.58	14.99
Kodak color film, 24-exp., 35mm, ASA 100	2.99	2.29	2.69
Minolta Maxxum-SLR-35mm camera, 7000	399.00	340.00	386.99
Scrabble board game, No. 17	7.97	8.73	7.99
G.I. Joe Persuader Tank action set, No. 6038	9.77	8.93	9.99
Throttlebott, Transformers action figure	3.27	2.96	2.99
Worlds of Wonder Lazer Tag game kit, No. 360032-11	47.99	39.78	39.97
Yahtzee dice game, E950	3.97	4.44	4.99
Alf doll, non-talking	24.94	24.97	24.99
Compact disc, Madonna "Who's That Girl"	17.33	12.96	12.99
Album, single LP	9.23	8.24	8.99
Sony blank videotape, T-120	3.77	3.96	4.99
TDK blank audiocassette, 60-min, 2-pak.	2.47	2.27	2.94
Ivory conditioner, normal, 15-oz.	1.67	1.68	1.69
Agree conditioner, regular, 15-oz.	2.67	1.94	2.39
Trojan condoms, regular, 12-pk.	3.66	2.48	2.39
Tampax tampons, original regular, 40-ct.	3.69	2.77	2.79
Johnson & Johnson baby powder, 14-oz.	1.89	1.96	2.19
Mennen Speed Stick deodorant, reg., 2.5 oz.	1.99	2.16	2.19
Colgate regular toothpaste, 7-oz.	1.49	1.48	1.39
Listerine, 32-oz.	2.69	2.97	3.39
Dexatrim maximum strength capsules, 40-pak	6.97	7.12	7.19
Tylenol caplets, extra strength, 50-ct.	3.69	3.97	3.69
Secret Solid deodorant, 2-oz.	2.43	1.92	2.59
Gillette regular shave cream, 11-oz.	1.29	1.67	1.69
Vicks Nyquil Nighttime cold medicine, 10-oz.	4.49	4.08	4.49
Gillette Atra blade cartridges, 10-pak.	3.69	3.87	4.29
Alka Seltzer plus, 36-ct.	3.79	3.74	3.79
Corning Visions, 2 1/2-qt. saucepan, V-2 1/2-N	17.97	15.96	14.99
Sunbeam Oskar food processor, white, No. 14061	56.93	48.68	49.99
Oster Galaxie Cycle blender	31.88	23.94	24.99
Nordic Ware Micro-Go-Round, cookware, 62301	29.96	17.97	24.99
Fram oil filter, No. PH8A	3.19	2.57	3.19
Armor All, 16-oz.	4.49	4.47	4.49
Turtle Super Hard Shell paste, 14-oz., T-222	2.97	2.97	3.99
Borden Rain Dance paste, 14-oz., 0245N	5.69	5.64	5.64
Gumout Jet Spray, 13-oz., No. 7450	1.97	1.64	1.64
AC-Delco spark plugs, No. 852	9.92	9.84	9.99
Quaker State Deluxe motor oil, 10W40, 1-qt.	0.99	0.98	1.14
Pennzoil Multi-Vis motor oil, 10W30, 1-qt.	0.99	0.98	1.02
Champion spark plugs, No. 322	4.96	4.92	4.99
STP oil treatment, 15-oz.	1.39	1.38	1.39
Ford Motorcraft oil filter, No. FL400A	2.99	2.83	2.99
Texaco Havoline motor oil, 10W40, 1-qt.	0.99	0.78	0.78
Coleman standard 2-burner stove, No. 425F499	30.97	34.26	30.79
Wilson tennis balls, can of 3, official U.S. Open	1.99	2.18	1.99
Crayola markers, broad, 8-ct.	2.19	1.96	1.99
Papermate 10-pack pens, medium blue	1.38	1.34	1.39
File folders, generic, 48-ct.	3.47	3.96	3.99
Filler paper, wide rule, generic, 200-ct.	0.59	0.63	0.59
Filler paper, narrow rule, generic, 200-ct.	0.59	0.63	0.59
Trapper Keeper binder, No. 29100	4.88	3.93	4.69
TOTAL MARKET BASKET	\$1,150.25	\$1,009.92	\$1,076.00
Lowest in Market	19 items	35 items	15 items
	31.7%	58.3%	25.0%
Highest in Market	30 items	7 items	29 items
	50.0%	11.7%	48.3%

Market baskets were conducted in October 1987 in area stores.

Source: DSN research



Austin boasts a service economy relatively insulated from the Oil Patch woes that have hit other Texas cities, particularly Houston.

Target Appeals to Upscale Austin Consumers

(Continued from page 123)

Now Austin suffers from a 28 percent office vacancy rate (although down from 35 percent) and retail and apartment vacancy rates in the high teens.

Most of the increase in Austin's unemployment rate to 6.9 percent as of July 1987 from 5.6 percent in 1986 resulted from the loss of 4,100 construction jobs, Smith said.

Retail sales reflect the softer economy. They grew to \$6.06 billion (excluding food) in 1985 from \$3.85 billion in 1982, Texas Department of Commerce figures show. Last year, sales slipped to \$5.74 billion. For 1987, retail sales will

dip further to \$5.5 billion, Angelou predicts.

State Commerce figures for the first quarter of 1987—the latest available—show retail sales totaled \$1.34 billion for the Austin metro market, down slightly from \$1.36 billion in the same period in 1986.

Despite flat population growth in 1987, the Austin population will grow 17.4 percent to 860,400 by 1991, projects the 1987 Survey of Buying Power of Sales & Marketing Management magazine.

Per household retail sales will gain 25 percent to \$21,143 by 1991 from \$16,907 in 1986, the survey projects.



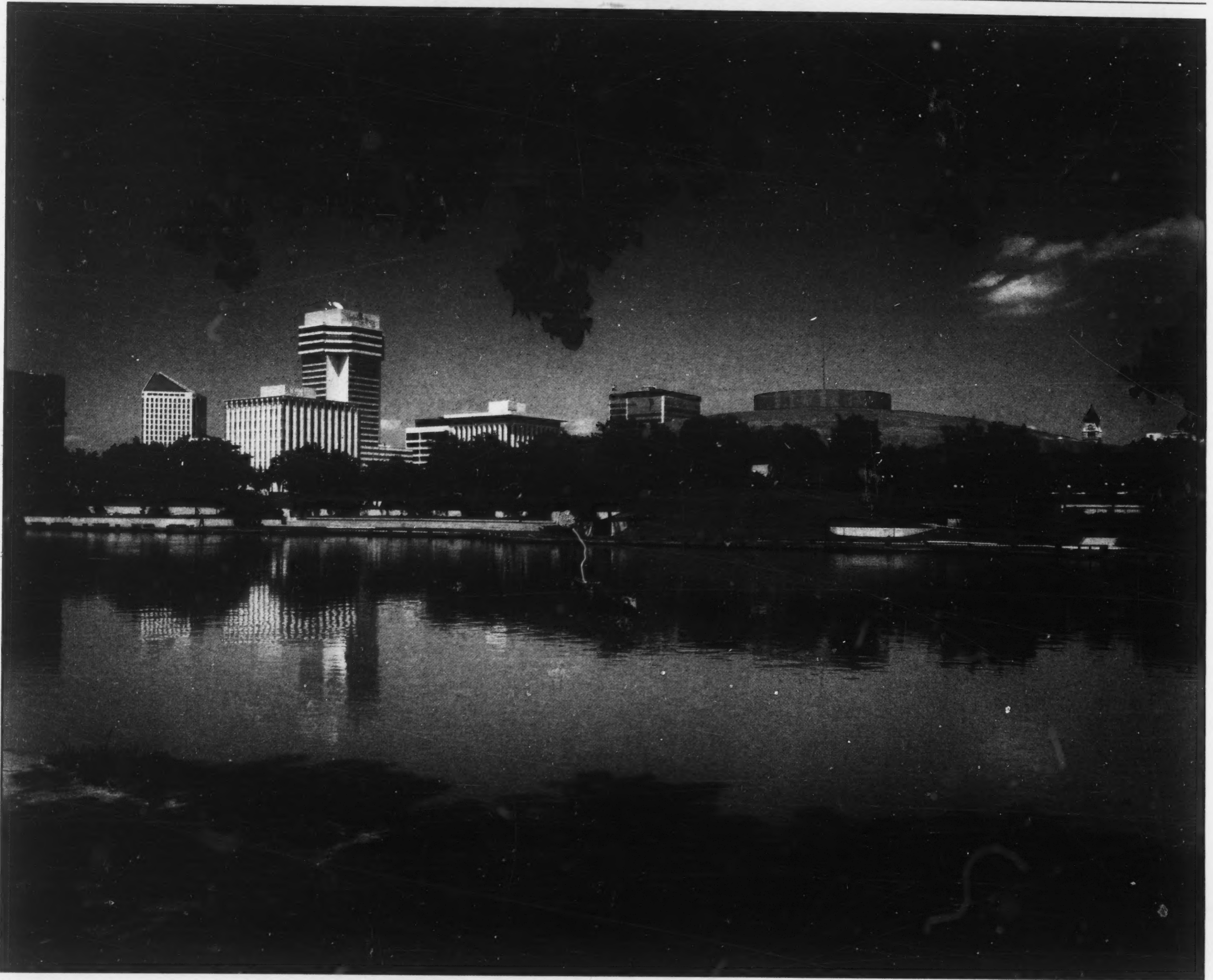
In Austin market research, K mart's pricing was highest on half the items surveyed. (DSN photos)

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Wichita is the hub for the state of Kansas' retail and cultural activities. Discounters account for one of the fastest-growing segments of retail sales here.

Wichita Is a Hub of Activity for Discounters

WICHITA, Kan. — Mention Wichita, and most often farmland will come to mind. Other than Kansans, not many people in the nation may be aware that:

- The city of Wichita in Sedgwick County is one of the few urban counties in the state.
- Wichita is the largest county in the state.
- It generates the most retail sales in Kansas.
- And, discounters account for one of the fastest-growing segments of retail sales here.

It is described by Wichitans and Kansans alike as a hub of retail and cultural activity.

And, all three of the nation's biggest discounters are represented here: K mart, which opened its first Wichita store in 1967, now has four units; Target, which landed here in 1980, has two stores; and newcomer Wal-Mart, which opened its first store in August and has two more stores on the drawing board that could be open by next fall.

Sedgwick County's 1987 population was projected at 400,000 by CACI, a market research firm based in Fairfax,

Va. Following Sedgwick, Johnson County is the second-largest urban county with 317,000 in population. However, that county is not solely confined to the borders of Kansas because it includes Kansas City, Mo.

Sedgwick County's gross retail sales for general merchandisers is the largest in the state, growing 11 percent to \$662.9 million during the September 1986 to August 1987 period, up from \$596.9 million for the year-ago period, according to Kansas Department of Revenue figures.

More than one-third of the total sales of general merchandisers is generated by department and discount stores. It is one of the fastest-growing segments, with sales rising 17 percent to \$249.8 million from \$213.1 million in 1986.

Wichita is distant from other major communities and serves as the regional center for shopping and retail activity, said Bud Grant, executive director of the Kansas Retail Council and vice president of the Kansas Chamber of Commerce and Industry in Topeka.

"People are willing to drive

many miles to shop," said Carlene Hill of the Center for Economic Development and Business Research at the Barton School of Business at Wichita State University. "In rural communities, people don't think much about driving 100

miles in order to go shopping."

Wal-Mart is taking advantage of Wichita's growth in retail activity. Since its entrance in August, the chain has announced plans to have three stores in Wichita by 1989. Wal-Mart's presence is not to-

tally new here, since the discounter has had stores in the outlying suburbs of Derby and Augusta.

Wal-Mart opened its first store in Wichita at the Pawnee Plaza Mall in August, taking

(Continued on page 129)



Wal-Mart opened its first store in the Wichita market this summer. It has plans on the drawing board for two more stores here that may be open by next fall.

(DSN photos)

Wichita Is Hot Spot for Discounting in Kansas

(Continued from page 127)
over a former 103,161-square-foot Woolco at one of the busiest intersections (Pawnee & Broadway) in Wichita, averaging 32,926 travelers per day.

In June, Wal-Mart said it would construct an 89,899-square-foot freestanding store adjacent to its Sam's Wholesale Club on West Kellogg to open next fall.

In October, Wal-Mart bought 12 acres of farmland in northeast Wichita on 21st and Rock Road to build a third Wal-Mart in this market. Construction will begin in the fall of 1988. The discount giant also operates two dot discount drug stores in Wichita.

However, while Wichita is the hot retail spot in Kansas, on a national basis, the city is ranked just under the top 100 metro markets in both general merchandise store sales and total retail sales.

"Four stores is enough right now in the Wichita market," said Wayne Keller, regional manager of K mart's Midwest region. "It is not a boom town compared to the rest of the nation," Keller said. "It is a stable economy and growing."

History in the Market

K mart was one of the first discounters in the market, opening its first store in March 1967 on the east side of Wichita and followed a month later with a second store on the west side of the market. Two additional stores were opened in 1976 and 1977, one on each side of the city. K mart also operates a Builders Square home center next to the Sam's Wholesale Club on West Kellogg.

Wichita's economy is heavily dependent on aircraft manufacturing. Recent hiring by such manufacturers as Cessna, Boeing and Beech bode well for retail sales in 1988.

"I can't see anything but positives, with farm products and oil starting to come back and strong airplane manufacturing in Wichita," Keller said. Wichita differs from most markets in Kansas due to its mix of farm, oil and aircraft manufacturing industries, whereas others are solely based either on agriculture or oil, he said.

Target arrived in Wichita in 1980 and now has two stores across from Towne East Mall and Towne West Mall, two major shopping centers. Other discount competition includes Abilene, Kan.-based Duckwall-ALCO, which has six stores in the Wichita market.

K mart considers Target its No. 1 competitor in the Wichita market, Keller said.

According to a new study conducted by Leo J. Shapiro & Associates, Chicago, for DSN, Target customers bring home a mean income of about \$32,000, which closely matches the average income of \$31,270 in Sedgwick County, according to CACI.

Keller of K mart likes the mix of high incomes in special-

ized aircraft positions because it gives the chain a good clientele for such higher-priced products as electronics, appliances, jewelry and cameras.

However, the average income in Wichita and Sedgwick

County does not paint a totally accurate picture of the economy there, said Roland Smith, executive director of the Wichita Independent Business Association, a 1,300-member organization estab-

lished in 1931. "There is a broad gap between the wealthy areas out east and west and the bottom end," Smith said.

For example, the median income of Sedgwick County (the

figure at which half of all incomes are above and half are below) is only \$27,808, which Smith said is a better reflection of market conditions. The median household income just for the city of Wichita, according to the Wichita Chamber of Commerce, is \$17,214, well below the county median.

"We're finding that Wal-Mart is filling the gap between incomes in the market by offering low prices for minimum wage workers," Smith said. "It seems to be just what Wichita needed to fill the vacuum left by department stores when they upgraded business to name brands and higher-income customers," he added.

"Wal-Mart will probably become our main competition after its three stores are opened," Keller of K mart said. ALCO, even though it has six stores in the market—more than any other discounter—offers less problems for K mart, said Keller, who also noted that cataloger Service Merchandise is a competitive factor in electronics, appliances and jewelry.

Smith of the local business association said that Wichita consumers tend to shop specialty consumer electronics chains such as Silo and Federated before they will shop a discount store for electronics. He added that while independent pet stores have a good business in Wichita, Wal-Mart is making gains at their expense with its fairly large department of live pets and accessories.

The Dominant Format

He acknowledged that, on the whole, the discount store is definitely the dominant retail format, gaining market share from troubled independents.

For example, when K mart and Target decided to carry china in its stores two years ago with 25 percent or better pricing than independents, three small china shops in the area went out of business.

People shop at the Big Three discounters to find the lowest price, Smith said. He believes Wal-Mart's prices to be 5 percent to 10 percent less than K mart's and Target's on selected items in Wichita. He added that selection is also better at Wal-Mart than at the other two discount chains.

According to a DSN market basket of products carried by all three chains in the market, Wal-Mart was found to have the lowest price on 41 out of 68 items or 60.3 percent. K mart had the lowest price on 25 items or 36.8 percent of the total, and Target had the lowest price on only 16 items or 23.5 percent of the total.

The market basket survey, conducted in October by DSN editors, also showed that Target was the highest priced in the market on 42 items or 61.8 percent of the total. K mart had the highest price in Wichita among the three chains on 23 items or 33.8 percent of the total, and Wal-Mart had the highest price on only 16 items, or 23.5 percent.

MARKET BASKET: Wichita, Kansas

Prices on 68 selected products sold at all three chains

Product	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448	\$ 25.99	\$ 24.58	\$ 25.99
Black & Decker 7 1/4-in. circular saw, No. 7308	28.96	31.96	31.99
Black & Decker 3/4-in. drill, No. 7143	25.97	21.96	26.39
Rayovac or Duracell battery, 9-volt, 1-pack	1.93	1.83	1.94
Gas can, 1-gal., metal, no vent	1.97	1.86	2.99
House paint, 1-gal., acrylic, flat, exterior, white	11.97	10.44	10.49
Stanley saw, 26-in. 8-pt., No. 15350	7.97	7.96	9.99
Stanley Workmaster hammer, No. 51-042	11.14	11.26	12.99
Ivory conditioner, normal, 15-oz.	1.68	1.48	1.69
Agree conditioner, reg., 15-oz.	2.37	1.94	2.39
Head & Shoulders shampoo, 15-oz.	2.96	2.96	2.49
Bausch & Lomb Sensitive Eyes saline solution, 12-oz.	1.50	1.50	1.99
Advance pregnancy test kit	10.97	9.62	10.99
Tampax tampons, original regular, 40-ct.	2.42	2.77	3.19
Mennen Speed Stick, reg., 2.5-oz.	1.79	1.67	1.79
Crest tartar control toothpaste, 6.4-oz.	1.28	1.28	1.29
Colgate regular toothpaste, 7-oz.	1.59	1.48	1.59
Listerine, 32-oz.	2.97	2.97	3.19
Anacin tablets, 100-count	3.97	3.97	3.19
Secret solid deodorant, 2-oz.	2.29	1.97	2.59
Gillette Foamy regular shave cream, 11-oz.	1.97	1.67	1.69
Vicks Nyquil Nighttime cold medicine, 10-oz.	2.19	4.84	4.49
Fram oil filter, No. PH8A	2.57	2.57	2.79
Armor All, 16-oz.	4.49	4.47	4.49
Turtle Super Hard Shell paste, 14-oz., No. T222	2.97	2.97	2.99
Borden Rain Dance paste, 14-oz., No. O245N	5.64	5.64	5.69
Gumout Jet Spray, 13-oz., No. 7450	1.64	1.64	1.69
AC-Delco spark plugs, 8-pack, No. 852	9.28	9.28	9.99
Prestone antifreeze, 1-gal., advanced formula	4.69	3.94	3.99
Pennzoil Multi-Vis motor oil, 10W30, 1-qt.	0.97	0.97	0.99
Champion spark plugs, 4-pak, No. 320	4.64	4.64	4.99
STP oil treatment, 15-oz., No. 3010702	1.39	1.38	1.39
Ford Motorcraft oil filter, No. FL400A	2.77	2.78	2.79
Texaco Havoline motor oil, 1-qt., 10W40	0.77	0.78	0.78
Wilson synthetic leather basketball, Pro 1000	11.97	19.96	9.99
Coleman standard 2-burner stove, No. 425F499	30.79	34.26	30.79
Wilson American Ace mid-size tennis racquet	29.97	19.96	24.99
Wilson tennis balls, official U.S. Open, can of 3	2.07	2.18	1.99
Spalding Top Flite golf balls, X-outs, No. 891505	8.96	8.94	4.98
Paper Mate, Write Bros., 10-pak pens, medium blue	1.38	0.94	1.39
Sentry Fire Chest 1100	24.88	29.96	24.99
Kodak disc film, twin pack, 30-exp., 150/200	4.39	4.38	4.39
Polaroid Spectra System	127.97	127.67	139.99
Polaroid 600 film	8.47	8.47	8.29
Kodak color film, 24-exp., 35mm, ASA 100	2.39	2.38	2.49
Tonka bulldozer, No. 2961	14.97	13.97	14.99
Sorry board game, No. 0390	9.94	7.98	10.49
Scrabble board game, No. 17	7.86	8.63	7.99
Monopoly board game, No. 9	6.88	8.53	6.89
Nintendo deluxe video game	139.00	138.74	139.99
Persuader GI Joe tank set, No. 6038	9.97	8.93	9.99
Fisher Price Little People/Little Mart, No. 2580	13.96	13.94	11.99
Worlds of Wonder Lazer Tag, No. 360032-11	43.77	43.78	39.97
Yahtzee dice game, No. E950	4.96	4.44	4.99
Candyland board game, No. 4700	5.19	4.98	3.89
Alf doll, non-talking, No. 6601	22.97	24.92	24.99
Coleco Cabbage Patch Kid, No. 3900	24.97	18.96	18.99
Ideal Talking Big Bird	69.94	59.76	54.99
Prerecorded video, Disney Children's Classic	27.76	27.76	26.95
Compact disc	13.44	12.96	12.99
Album, single LP	9.47	6.96	6.99
TDK blank audiocassette, 60-min., 2-pak	1.97	2.27	2.39
Corning Visions, 6-piece set, V-300-N	28.96	28.96	34.99
Sunbeam Oskar, white, No. 14081	56.00	59.68	49.99
Oster Galaxy Cycle blender, No. 869-16	23.79	23.94	23.49
Mr. Coffee Automatic, 10-cup, CM-10	17.96	17.96	17.00
Rubbermaid twin sink dish drain, No. 1180	3.83	2.96	2.99
Ekco Bakers Secret, 6 1/4-in. by 9 1/4-in. loaf pan	1.97	2.46	3.49
TOTAL MARKET BASKET	\$1,010.44	\$995.60	\$993.60
Lowest in Market	25 items	41 items	16 items
	36.8%	60.3%	23.5%
Highest in Market	23 items	16 items	42 items
	33.8%	23.5%	61.8%

¹Eagle; ²Stancan; ³Coleman; ⁴Glidden; ⁵Lucite; ⁶Two for \$3; ⁷Caplets; ⁸\$2.49 for 3-pak
Market baskets were conducted in October 1987 in area stores.

Source: DSN research

K mart/Wal-Mart/Target

Merchandising

Innovation Propels Big Three to Forefront

K mart, Wal-Mart and Target have been the most emulated chains in the discount industry because of their merchandising flair. Despite widely disparate strategies, the Big Three of discounting have managed to race to the forefront of retailing with sophisticated merchandising techniques that are often copied by their peers.

"We seem to be the R & D for most of general merchandise retailing," commented K mart's marketing vice president, Michael Wellman.

K mart's development of power departments and attempt at achieving category dominance is unparalleled in discounting.

At the same time, Wal-Mart has experienced unprecedented success with its cheap and deep merchandising philosophy, noted for slick adjacencies and stack-'em-high displays.

Target, on the other hand, is the most department store-like, practically snubbing its nose at other discounters. Clean sight lines, ease of shopping, wide aisles and colorful displays have become synonymous with the upscale discounter.

'If you want to look at the single best reason why a shopper comes to a K mart rather than a Wal-Mart or a Target, it's because we do a much better job in assortment, selection and variety of hard goods.'

—Michael Wellman, vp, marketing, K mart

"If you want to look at the single best reason why a shopper comes to a K mart rather than a Wal-Mart or a Target, it's because we do a much better job in assortment, selection and variety of hard goods, forgetting some of the stuff that Wal-Mart admittedly has a larger amount of, like candy and chewing gum, and that sort of stuff," said Wellman, when asked to compare the strengths of the three biggest discounters. "They're always looking at what we're doing in terms of hardware, paint, wallpaper, sporting goods, auto accessories, horticulture.

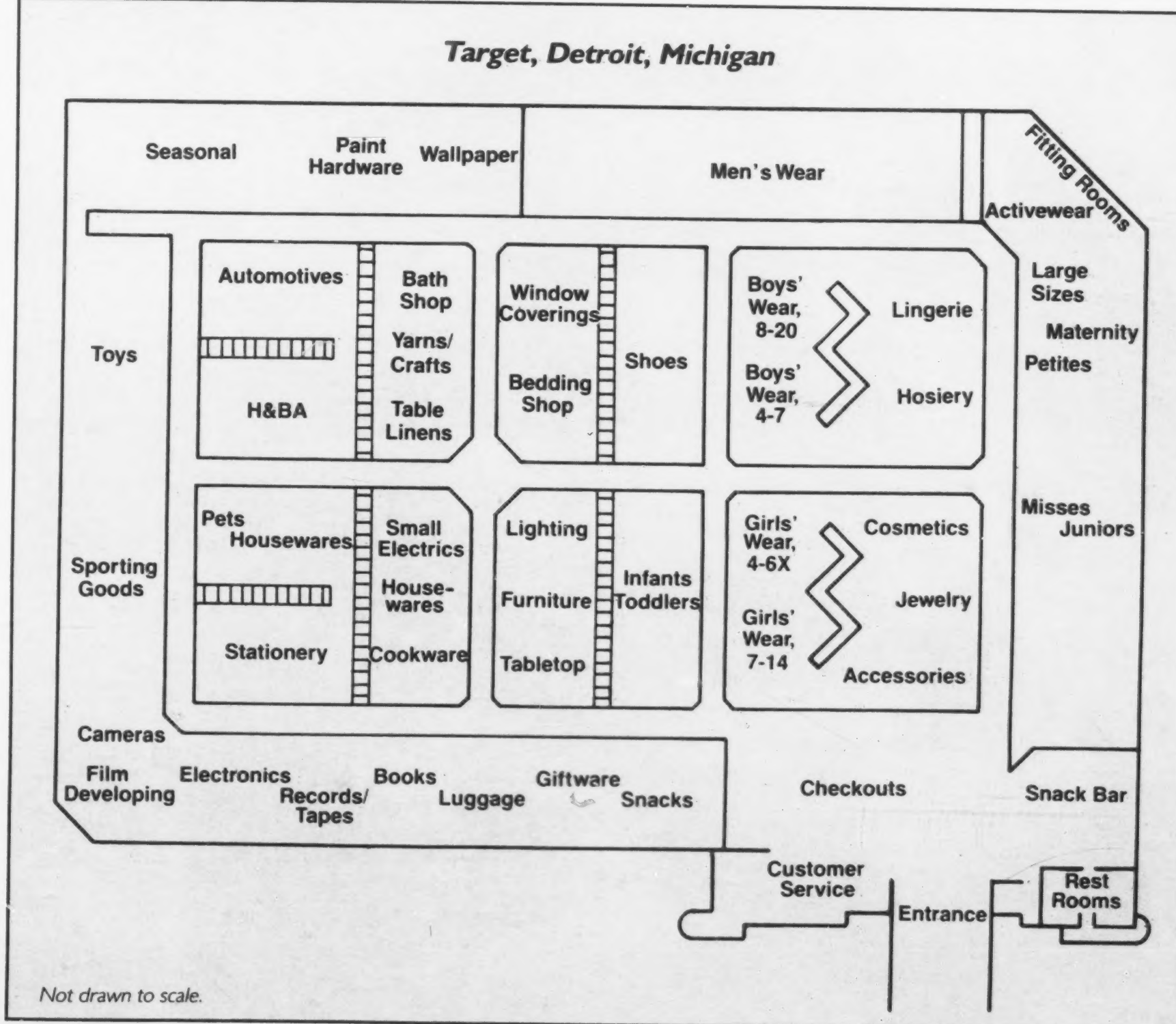
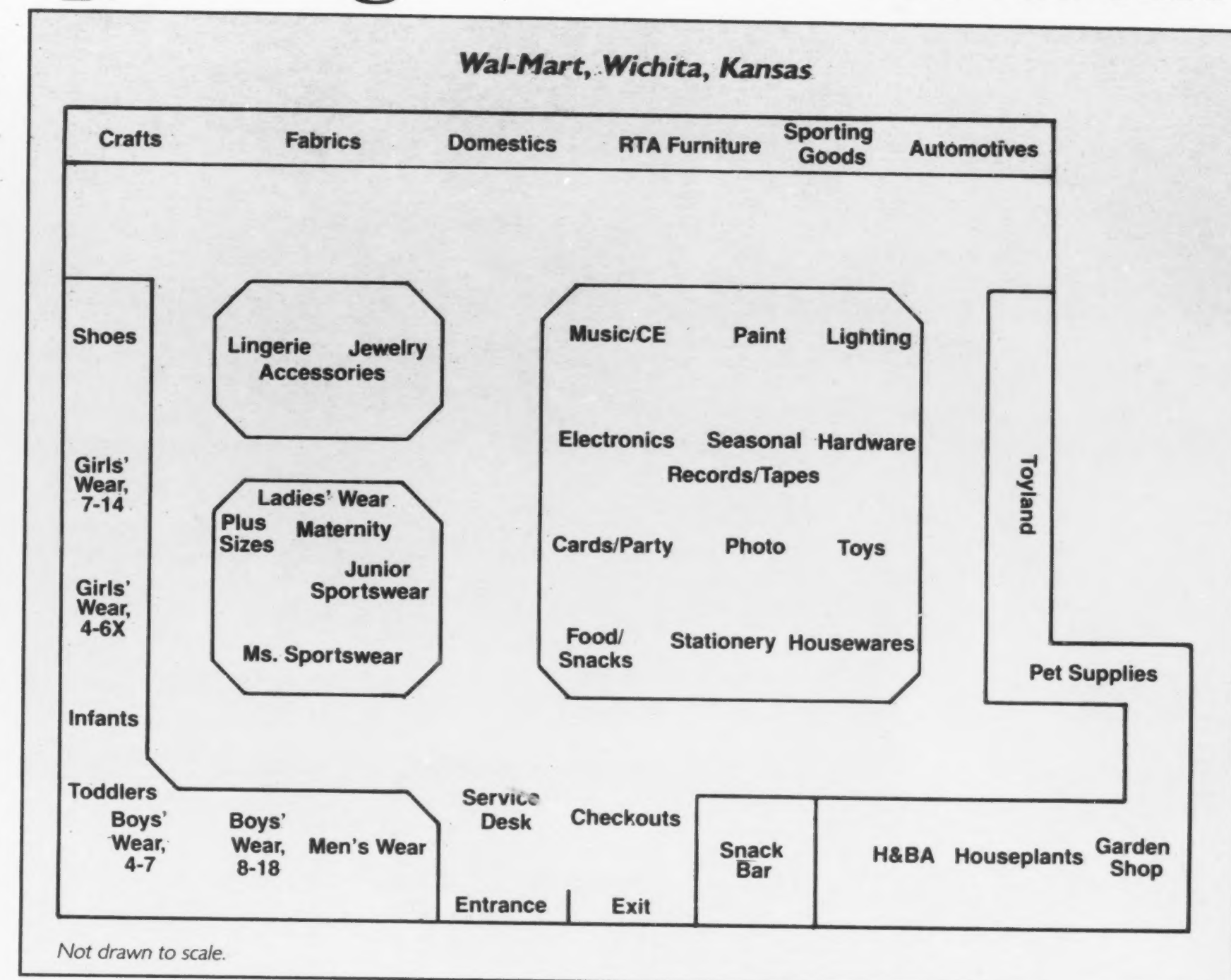
"Perhaps Wal-Mart has a bigger assortment of cleaning supplies. That doth not a strong hard goods merchandising program, in my estimation, make," continued Wellman. "And, there isn't anything in the Target strategy that says to the consumer, 'we're really hard goods driven.' It says, 'we're soft goods driven.'"

In apparel, K mart has remained with its traditional low apparel price points, but has steadily been adding more and more fashion-forward, higher-priced merchandise, while upgrading its apparel fixturing and displays. The aggressively expanding Wal-Mart, which has supplanted K mart in the markets in which they compete as the everyday low price leader, has also been upgrading its apparel selection, although Wal-Mart's apparel departments are still very much "narrow and deep," carrying far more of the basics than K mart, or any other major discounter. Target has positioned itself as the leading fashion-oriented discounter.

This fashion orientation carries over into domestics, where Target gets high marks for its display techniques, coordinated looks, and up-to-date assortments. K mart, in its newest units, presents towels by color rather than style and has more coordinated displays. Wal-Mart is noted for its quality product lines and low prices, but its presentation still leaves a lot to be desired when compared to the other two.

K mart's hard lines edge is clearest in hardware, where it has been leading Wal-Mart and Target in developing a stronger presence through the rollout of home care centers.

K mart has also been a leader among discounters in broadening its consumer electronics product mix



to appeal to a more upscale customer. Of the Big Three discounters, K mart has made the strongest commitment to carry more high-end goods, and is closest to developing what chairman Joseph Antonini calls a "power department."

However, in auto parts and accessories, K mart's traditional dominance is challenged by Wal-Mart—the aggressive price leader in markets where it bumps heads with K mart and Target.

In health & beauty aids, Wal-Mart's everyday pricing cannot be beat, but Target's promotional pricing outshines Wal-Mart's. K mart's pricing was considered least aggressive of these retailers on an everyday basis, but nearly on par with Target during ad weeks.

Target is particularly strong in its presentation of soft drinks, but regular foodstuffs are not as im-

(Continued on page 135)

Innovation Propels Big Three to Forefront

(Continued from page 133)

portant and generally are purchased for special or seasonal promotions. Wal-Mart is strongest in name brand snacks, particularly confectionary, where it has recently made a major change in its presentation. And, nearly three years ago, K mart converted 30 to 40 of its cafeteria areas to specialty food and beverage departments, plus expanded the food area at 300 to 400 other K mart stores. All three have upgraded their confectionery presentations.

A consumer survey conducted for DSN by Leo J. Shapiro & Associates revealed that shoppers at Wal-Mart are more satisfied with the store than shoppers at K mart or Target. They have a higher opinion of the merchandise, are more confident of finding what they want, and feel that the store employees are friendlier and more helpful. With only minor exceptions, Wal-Mart was consistently rated higher than K mart and Target.

But, when Wal-Mart leaves its small-town home to do business in larger metropolitan areas, it is no longer a superior chain. In comparison to Target, which locates mainly in large metro areas, Wal-Mart rated lower on 10 out of 12 merchandise departments and in three out of four store attributes rated by consumers. Of the four store attributes (finding things you want to buy, finding good quality merchandise, prices, helpfulness and friendliness of store employees), Wal-Mart exceeded Target only in the rating of its store personnel.

Wal-Mart merchandise also does not hold up against K mart in metro areas of 1 mil-

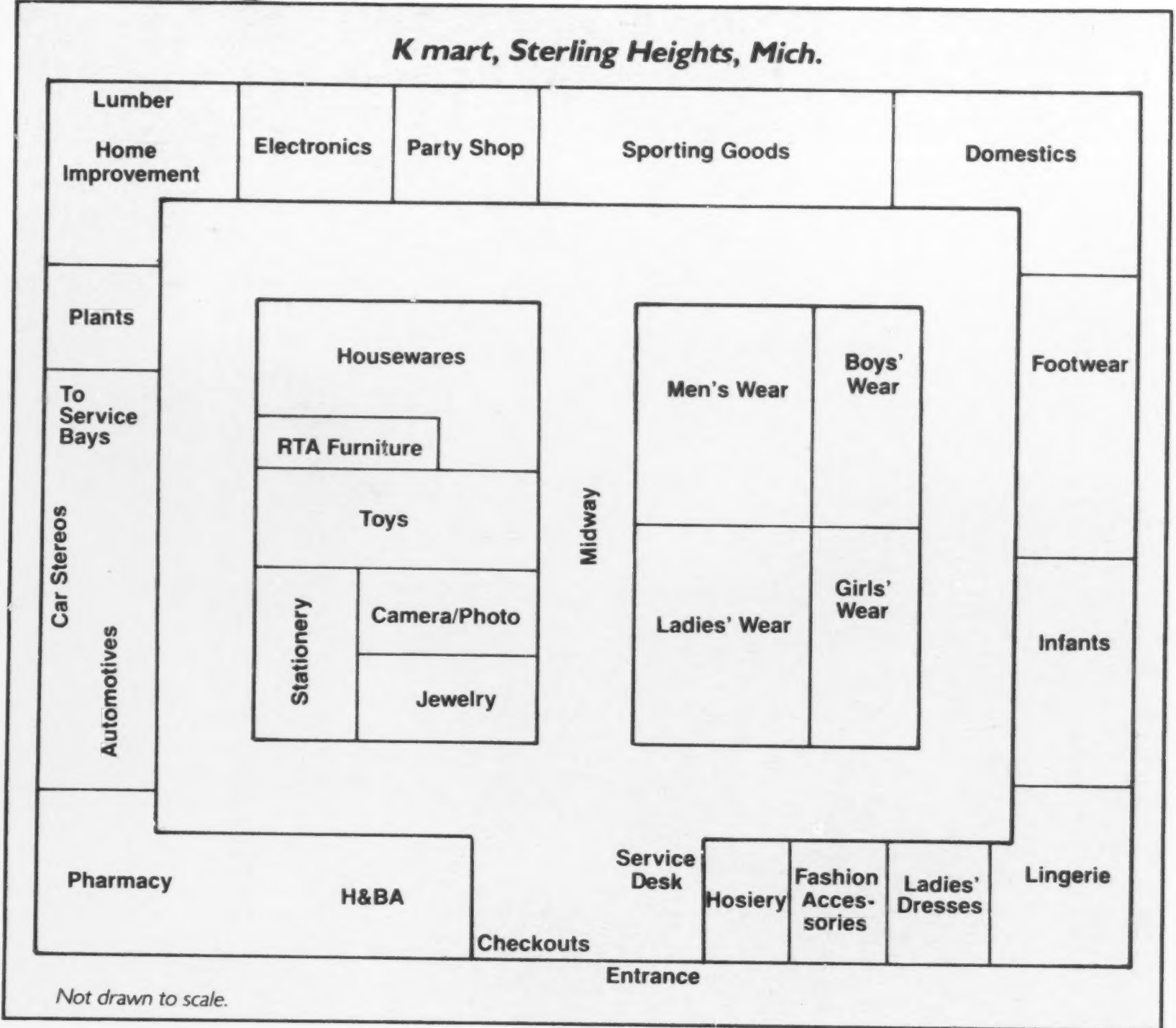
lion or more population. Consumers in these larger cities rated Wal-Mart lower than K mart on 10 out of 12 departments surveyed. However, Wal-Mart did garner higher marks than K mart on all four store attributes.

The excellence of Target can be seen in its superior ratings against K mart despite the fact that K mart merchandise is given higher marks than merchandise at Target. Target shoppers are more confident about finding what they want to buy than K mart shoppers. They also rated prices at Target better, supporting observations that K mart is trying to cash in on its well-earned reputation as, "the savings place," by now charging higher prices and squeezing more profit out of its sales.

Target customers are also more confident of the quality of merchandise at Target than are customers at K mart. Only in the area of personnel—helpfulness and friendliness—does Target lag K mart in the eyes of shoppers.

This strong overall view of the store exists despite an only even split on individual merchandise departments against K mart in metro areas of 1 million or more: Target does better in six product categories, K mart in six. In smaller metro areas, K mart merchandise rates almost uniformly higher marks from shoppers than Target merchandise. However, Target still holds the edge in a critical area—adult clothing, a product area that has been shown to make a disproportionately higher contribution not only to sales but to overall customer satisfaction.

K mart, with stores every-



where in big, middle and small-town America, is typically second best: beaten by either of the two other chains in customer satisfaction as well as in how much customers spend annually in the stores. In smaller (50,000 to 1 million population) metro markets, where K mart and Wal-Mart each serve about one-third of the total customers, K mart rates higher than Wal-Mart in only five merchandise departments, and lower in all four store attributes, including price. In large metro areas, K mart lags Target, and in small towns, the Troy, Mich.-based discounter trails Wal-Mart across the board in customer satisfaction. Even the few small-town residents who patronize Target—typically a half hour trip to the stores that are probably located in a nearby metro area—rate Target above K mart.

Wal-Mart Is Consistently Rated Higher than K mart and Target

How shoppers rate various departments at the big three discounters
Mean ratings on scale of 1 to 9 (9 = outstanding)

Market	K mart	Wal-Mart	Target
Small Electric Appliances	6.52	6.88	6.35
Domestics, Sheets, Towels	6.71	7.01	6.37
Sporting Goods, Equipment	6.22	6.72	6.00
Lawn & Garden Supplies	6.86	6.45	6.25
Men's Clothing	5.52	6.00	5.50
Health & Beauty Aids	6.81	7.14	6.77
Toys	6.62	6.74	6.60
Children's Clothing	6.22	6.52	6.12
Women's Clothing	5.73	6.20	5.89
Housewares	6.80	6.99	6.82
Automotive Supplies	6.60	6.74	6.48
Hardware	6.51	6.67	6.22

Source: Leo J. Shapiro & Associates/DSN, December 1987

39% of Target Shoppers Mainly Bought Clothing

What shoppers mainly spent their money on at the store during the past year

	K mart	Wal-Mart	Target
Clothing	34.5%	32.9%	39.4%
Shoes	2.9	2.7	1.5
Small Electric Appliances	2.5	2.6	3.2
Electronics	2.0	2.9	2.6
Housewares/Household Items	17.3	16.1	22.4
H&BA	12.6	16.3	13.8
Stationery/School Supplies	2.7	4.1	7.6
Tapes/Film	1.1	2.5	3.4
Infant Supplies/Formula/Diapers	1.3	3.4	3.1
Pharmacy	3.0	2.3	0.2
Auto Supplies	10.5	9.4	10.8
Garden Supplies	10.6	8.9	5.1
Sports/Fishing Equipment	5.3	4.3	3.3
Gifts/Presents	2.7	2.1	3.3
Home Soft Goods (Domestics)	3.1	3.9	3.7
Toys	4.3	4.8	7.5
Hardware/Tools	6.2	4.0	4.3
Craft Materials	1.4	3.8	0.5
Cleaning Supplies	2.5	5.4	2.9

Source: Leo J. Shapiro & Associates/DSN, December 1987



K mart has remained with its traditional low apparel price points, but has steadily been adding more fashion-forward, higher-priced merchandise, while upgrading its fixturing and displays. (DSN photo)

All Three Upscale Apparel to Varying Degrees

While the apparel business strategies of the Big Three chains—K mart, Wal-Mart and Target—differ markedly, they all have been successful to date by becoming more sophisticated in the way they each tackle this high-margin segment of the market.

The critical importance of apparel at these discounters is buttressed by a study conducted this fall for DSN by Leo J. Shapiro & Associates, Chicago. The study, among other key findings, revealed that customers who say that they buy mainly apparel at the three discounters spend substantially more annually than customers who mainly purchase other kinds of goods.

In an attempt to attract more of their affluent customers to their apparel departments, these three giant discounters over the last several years have—to varying degrees—upscaled their apparel merchandise mix. Also spurring these discounters to upgrade is more widespread consumer knowledge and demand for more fashionable apparel.

K mart, the only one of the three that blankets the entire country with some 2,200 units, has remained with its traditional low apparel price points, but has steadily been adding more and more fashion-forward, higher-priced merchandise to its mix, while it is also upgrading its apparel fixturing and displays.

Wal-Mart Focuses on Basics

The aggressively expanding Wal-Mart, which has supplanted K mart in the markets in which they compete as the everyday-low-price leader, has also been upgrading its apparel selection, although Wal-Mart's apparel departments are still very much "narrow and deep," carrying far more of the basics than K mart, or any other major discounter.

Target, with significantly larger units (100,000 square feet on average) allowing for more apparel floor space compared to either K mart or Wal-Mart, has positioned itself as the leading fashion-oriented discounter, with its upgraded units having more of a department store feel than those of most discount stores.

As Wal-Mart and Target expand beyond their current markets, the big question is whether the two chains can remain focused on what they do best in their respective apparel businesses. Will they be able to attract that same customer type in new markets as successfully as they have in established markets, or will either or both chains have to tinker with their current strategies in order to succeed on a more national level?

The concomitant challenge for K mart is obvious: with Wal-Mart and Target expanding into more markets, will K mart's apparel business be squeezed between Wal-Mart on the low end and Target on the high end?

In response, K mart will



Target is the most upscale of the Big Three in apparel mix, although they all have become sharper apparel merchandisers. (DSN photo)

have to develop even greater customer loyalty through emphasis on value and uniqueness. Putting together solid, attractive private label programs is one means to that end, since customers can't get that merchandise anywhere but in a K mart. The chain has been very successful to date in its apparel private label push.

Analysts, suppliers and other industry observers also say, not surprisingly, that in going forward, the Big Three will continue to rely on their respective apparel strengths.

K mart will continue to upgrade its merchandise mix and, several observers noted, will be going after the more upscale Sears customer. The immediate challenge for the Troy, Mich.-based chain will be to remain price-sensitive with respect to its core customer base while increasingly addressing the needs of a more fashion-minded customer.

Wal-Mart, observers say, will be continuing to expand so rapidly that it will have difficulty upscaling its apparel areas to any significant degree.

Analysts, retail consultants and manufacturers who sell to Wal-Mart also said that the Bentonville, Ark.-based discounter—which is the most price-sensitive of the three, regularly taking shorter markups in most apparel categories and lines compared to K mart and Target—would have to be very careful in any upscaling attempts.

They point out that, in many instances, today's Wal-Mart customer fits a similar profile as a K mart customer six to ten years ago, and that that customer—the least likely to be interested in fashion looks—is very price-sensitive.

Still others said that Wal-Mart has no intention right

now to further upscale its apparel business. The emphasis, these observers say, will be on doing exactly what it is doing now on a national basis.

There are two schools of thought concerning Target. One is that the Minneapolis-based giant had overshot its core customer base in its aggressive focus on more and more fashion-forward apparel, and that it is retrenching and will not be increasing its fashion vs. its basic mix for the near term. This camp also mentions that, strategically, Target of late isn't being run as effectively as it could be. They point to Dayton Hudson's (Target's parent) upper management's distraction over recent takeover attempts, and the drain from its struggling sister chain, Mervyn's, as possible reasons for recent sluggishness.

The other school points out that Target, strategically, is right on "target," and that it does what it sets out to do as well as anyone.

Even Target boosters said the chain is having trouble getting the right kind of apparel merchandise in the huge quantities that are necessary, especially for its new converted Gemco units in California.

A spokesman at Target said the chain "is meeting the current level of interest of our customer" in terms of its fashion/basic apparel mix. "Our goal is to be as fashion-timely as possible, because our customer is aware of the latest trends, in soft as well as hard goods," he added.

K mart is edging closer to Target in terms of the emphasis that's being put on fashion apparel merchandise. K mart continues to address the more trendy customer with new private label programs started

earlier this year, and it's devoting more space to growth apparel segments like petites and large sizes in women's, and big and tall in men's.

Also, K mart's newest test prototype, which so far has seen sales increases in most categories over the older design, represents an increased commitment to its apparel business, with all apparel categories centrally located in the middle of the racetrack (see story, page 144).

K mart has also been upgrading its store environment, approaching the sophistication level of Target. Increased apparel signage, much of it using four-color graphics and more upscale department store-like fixturing and display design, has contributed to a much cleaner, high-end look compared to the way many K marts looked just a year or two ago.

Target, however, with greater floor space on average than either K mart or Target, has the square footage to break out more apparel departments (separate junior fashion sportswear and young

men's areas, for example) and hence is able to offer a more upscale environment. Target boasts carpeting along with department store-like expansive space between apparel racks and other fixturing. There is also extensive four-color fashion signage.

With K mart's aggressive upscaling, Wal-Mart now lags significantly behind K mart in terms of the look of its apparel department. The space between apparel racks in most Wal-Mart's is cramped, the only signage is of the strict price-oriented variety, and Wal-Mart is still into cheap-and-deep basics (with the exception of its toddler/children's department), with many racks of rigid denim jeans and bins of red and black checked flannel shirts.

The Shapiro study shows that consumers associate Target with apparel more often than K mart or Wal-Mart. It also revealed that 39 percent of Target shoppers say they purchased mainly apparel items over the last year, compared to 34 percent for K mart and 33 percent at Wal-Mart.

Apparel Sales Drive Target

Percent of shoppers who mainly spent their money on apparel at the store during the past year

	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)			
Clothing	27.3%	33.6%	35.9%
Shoes	3.4	4.2	1.3
In Small Metro Areas (Pop. 50,000 to 1 mil.)			
Clothing	38.4	30.4	47.0
Shoes	1.6	1.5	1.8
In Non-Metro Areas (Rural)			
Clothing	37.8	34.2	34.5
Shoes	4.2	3.0	1.4

Source: Leo J. Shapiro & Associates/DSN, December 1987

APPAREL

K MART/WAL-MART/TARGET

Target, K mart Put Fashion First in Women's

With women's wear being the most fashion volatile of all the apparel categories, it requires a more concerted effort than other apparel categories to remain up-to-date.

Not surprisingly, since Target has positioned itself as the leading apparel discounters, it is the most upscale of the Big Three in terms of fashion vs. basics in its women's wear mix, although K mart has been coming on strong over the last couple of years, especially with its more sophisticated private label programs.

It's interesting to note that, strategically, Target and K mart tackle private label differently.

Signature Collections

K mart has had tremendous success with its Jaclyn Smith signature collections in women's, along with Hunters Glen and other private labels, which are developed specifically for women's wear.

Target, on the other hand, merchandises its two big private label programs, Favorites (opening price-point basics) and Honors (higher price-point fashion), across the board. Those two labels appear throughout Target's women's, men's, boys' and girls' departments. The label, in the case of Favorites, can even be found on diapers and other non-apparel items.

Target has, though, recently started a new, high fashion private label, called Sostanza, which focuses on women's wear and accessories.

Emphasis on Fashion

With a much greater emphasis on more fashionable women's wear at Target and K mart compared to Wal-Mart, price points in women's and juniors' in general are closer between K mart and Target than between Wal-Mart and Target.

According to suppliers and retail consultants, Wal-Mart is not only lower priced on comparable fashion-forward looks, but Wal-Mart even out-prices K mart and Target by several cents on the most basic commodities.

While Wal-Mart isn't as



K mart is moving toward more circle racks, and wall fixturing is upscale in this women's department.

fashion-forward in women's apparel as either K mart or Target, Wal-Mart knows what its customers want and addresses their needs as sharply as K mart and Target.

This is borne out in the Leo J. Shapiro & Associates study conducted for DSN, which reveals that Wal-Mart customers rated the chain's women's wear department higher than K mart shoppers ranked K mart's women's apparel department and higher than Target customers ranked Target's women's department.

So it's apparent that—as much as, if not more so than at K mart and Target—Wal-Mart is in tune with its non-trendy female customer.

During recent visits to all three stores in one market, many of the differences between them were obvious.

Wal-Mart's women's apparel department (off to the left of the store entrance, as were all

apparel categories) emphasized down-the-line basics, although there were such fashionable items as salt-and-pepper ladies' overcoats for \$64.88, fancy sweaters for \$17.97 and a display of fashion-colored sweats. This store also broke out a petite's area.

The signage in the woman's apparel department hawked low prices rather than using graphics to show off smart looking apparel items.

At K mart, Debra J. Grafton, vice president and general merchandise manager, ladies' and girls' wear, said that 1987 represented an important year for K mart's women's department.

Among the advances was the establishment of a year-round, full-figure department at all units, called Women's Sizes for the Contemporary Woman. Grafton said a senior buyer and other individual category buyers were brought

on board this year specifically for the large size area. Brands such as Jordache and others were added during the year. She added that a private label line strictly for the full-figure department is in the works.

Grafton said large-sized women's wear represented the greatest sales growth this year over any other female segment or category.

K mart has also expanded its petite offerings, although a separate area with signage is presently in less than half of all units.

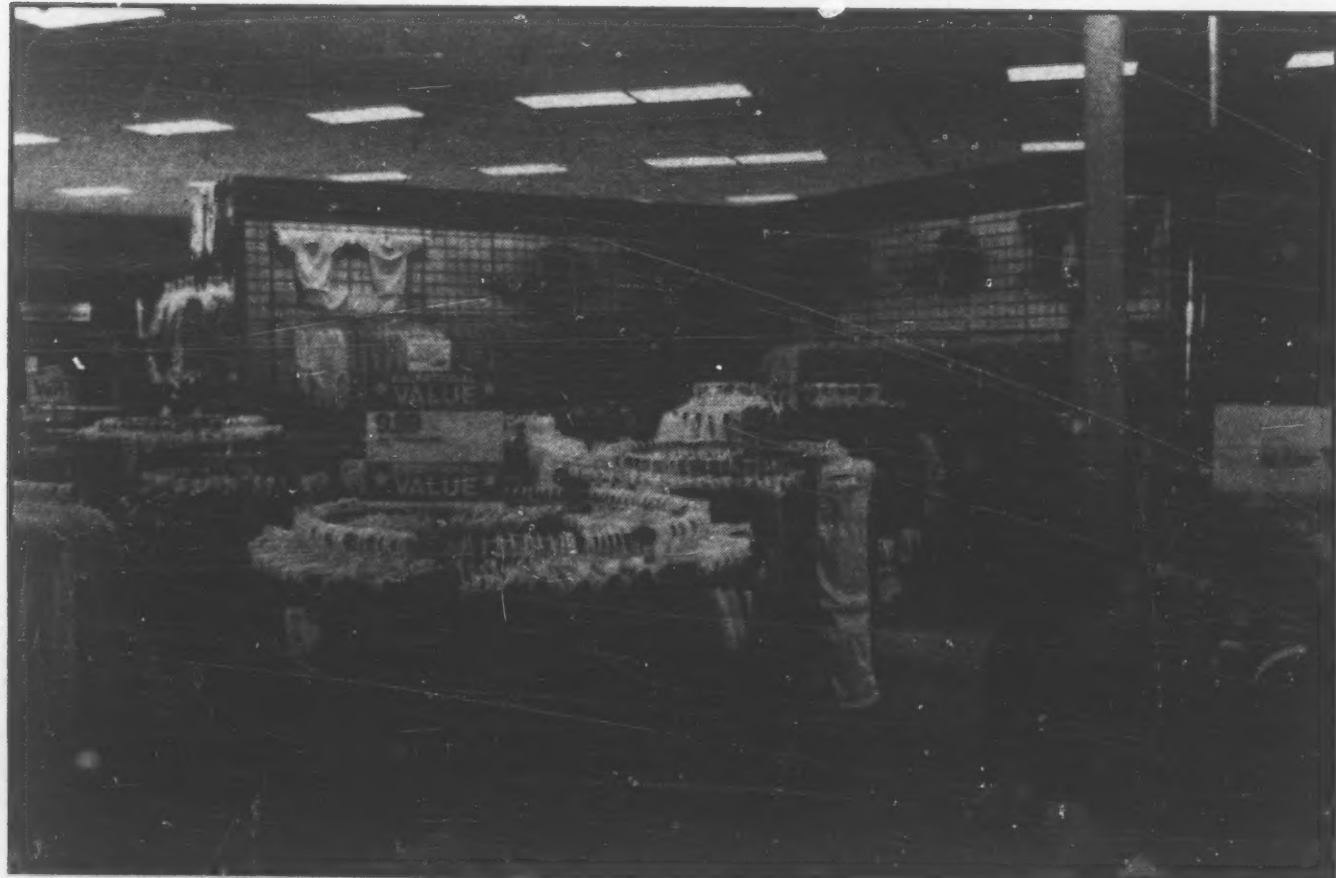
This year also saw two new fashion-oriented private label programs unveiled at K mart, the bigger being the chain's Weathered Blues-labeled casual sportswear, which K mart blitzed on the buying public with heavy advertising and upfront store displays in late summer. The Body Co., a line of exercise wear, also debuted in the summer, with a sepa-

rate exercise wear area, including brands and private label, created in some units.

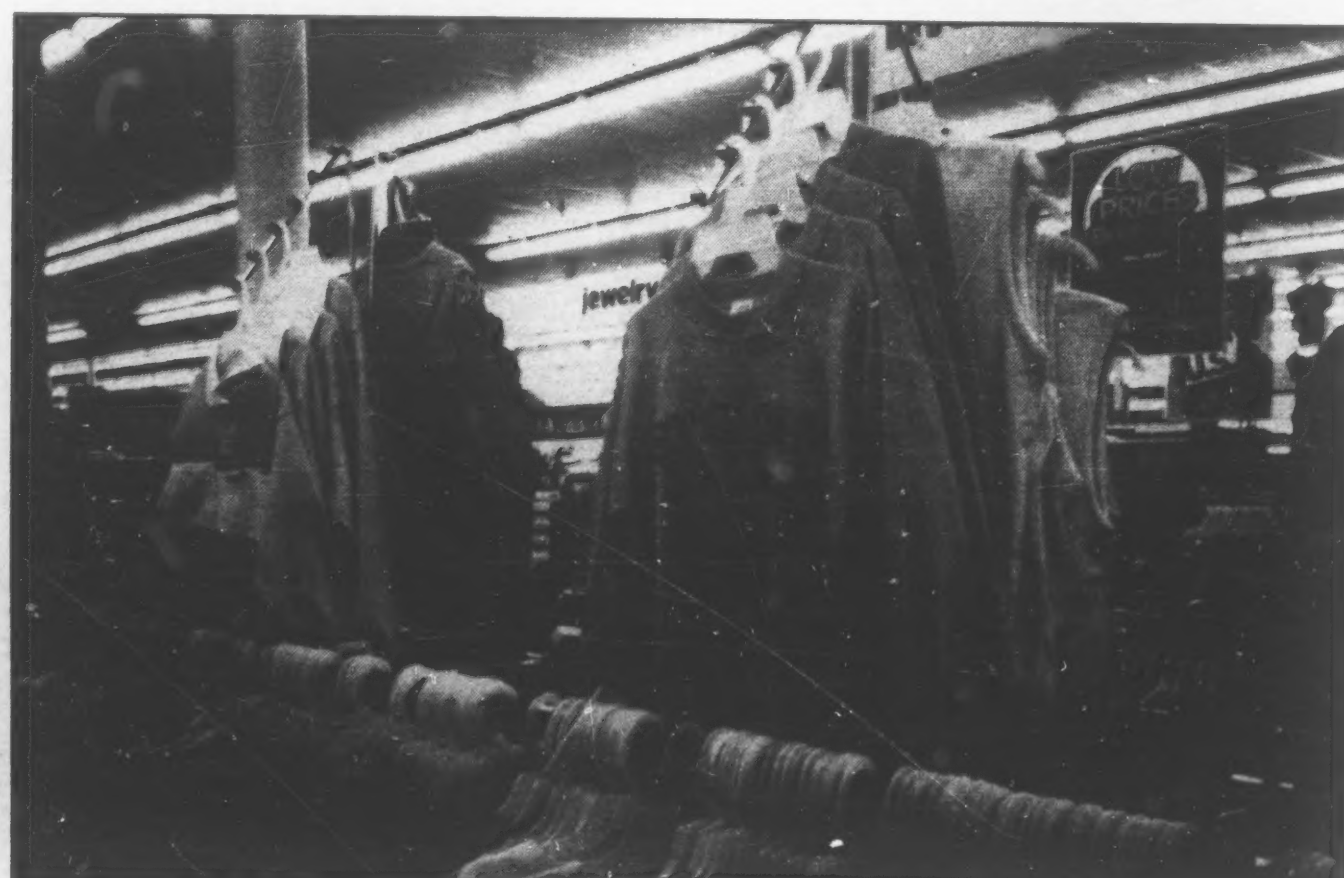
There was more in the way of new private label lines and increased store sophistication at K mart over the year than there was at Target. However, Target maintains a more upscale flavor in women's apparel than does K mart.

In merchandise, for example, Donna Rice's No Excuses stonewashed jeans were being sold for \$24.99 at a Target visited this fall.

In general, the fashion-forward portion of the mix is still greater at Target, with more racks of acid-washed jeans and short skirts and fancy sweaters and fleece than at K mart, although there's much duplication in brands—especially in bottoms—between K mart and Target, with price points on similar models very competitive between the two chains.



Sophisticated grid wall fixturing featuring fashion-colored fleece highlight the women's area of this Target.



Wal-Mart is a more straight-forward merchandiser, with long racks and no-frills hanging tops above many of the racks.

(DSN photos)

APPAREL

K MART/WAL-MART/TARGET



More color signage, coordinated looks and partition fixturing are part of the total, upscale look that can be found in the men's wear department at K mart.

K mart, Target Take Lead In Discount's Fashion Push

All three chains are addressing a male customer—or the female customer shopping for a man—who is now paying more attention to fashion than ever before.

Naturally, Wal-Mart has been the least active in this area. Prices and merchandise are still "down and dirty" at Wal-Mart, based on in-store observations and according to some suppliers and retail consultants.

A couple of manufacturers who supply all three chains in the men's segment said that Wal-Mart regularly takes a markup in the area of 34 percent on many lines, compared to markups in the 40s at K mart and Target.

These suppliers also said that, as far as they're concerned, Wal-Mart is much more efficiently run than either K mart or Target. These suppliers also spoke of "a more rural mentality" throughout Wal-Mart's operations, which they said translates into more people on the floor at store level compared to an average Target or K mart, and with Wal-Mart's floor sales force more willing to help the customer than sales help at the other two chains.

However, it should be noted that many of the suppliers DSN talked to in the men's segment did most of their business with Wal-Mart. Among these suppliers, K mart was No. 2 in dollar business and Target third.

Another supplier said that he likes to see his merchandise in Target, but it buys more selectively from an average line than K mart or Wal-Mart, hence he actually does more business with the latter two.

Target tends to do more cherry-picking of lines than just going forward with an entire line, this supplier said.

One supplier said that he sells acid-washed jeans to Target and canvas fashion bottoms, knit tops and sweaters to K mart and Wal-Mart. This manufacturer predicted his business will be growing most with K mart and Wal-Mart.

On display at a Wal-Mart's men's department visited this fall were rigid denim jeans, basic flannel shirts (\$6.47 in bins) and basic work-type shirts (dark brown twills in short sleeves for \$8.73).

In jeans, Wal-Mart is heavy in such basic labels as Branders (\$9.97) and Wrangler (\$15.76 for a rigid basic). Jeans are merchandised out of wood cubes and on plastic hangers.

Also, men's apparel was more dispersed throughout the store at Wal-Mart compared to the others. While there were a few activewear items and some hunting apparel in the sporting goods department at K mart, there was much more apparel merchandise in those hard goods departments at Wal-Mart. Such a strategy could be seen as less of a commitment to men's wear compared to K mart, and certainly less than Target.

Wal-Mart's Ratings Good

Yet, as in women's wear, Wal-Mart customers shopping the men's department rated it higher than K mart shoppers rated K mart's men's department and higher than Target shoppers rated Target's men's department.

At K mart, Bill Underwood, vice president, general merchandise manager for men's and boys', said, "We continue to upgrade our merchandise mix to meet the demands of our fashion-conscious customers. We're taking more 'dangerous' fashion gambles than we have before."

Underwood said that bottoms and big and tall have been particularly strong areas in men's wear this year.

He pointed to the upgrading of bottoms—looks like pigment-dyed canvas instead of racks and racks of basic twills, as well as acid-washed jeans—as reasons for the growth.

Underwood also said the chain has gone from no pleats in mature men's to 30 percent pleats, and to almost 100 percent pleats in young men's styles. He said he's also adding new polyester/rayon forward looks, as well as all wools to his bottom mix.

In the growing big and tall area, he said a separate buying department has been created and a specific buyer with his own purchase allowance was added this year. A good mix of fashion has been added all year to the big and tall mix, he said.

Right now, big and tall are in all stores, from two circle racks to 100 square feet, depending on space, said Underwood. He added that starting in the spring, there will be specific advertising in all stores for big and tall to alert the customer.

Underwood addressed the essential K mart merchandising strategy in apparel when he explained that "We can't afford to walk away from pricing or to be a season late fashion-wise."

Target, like it is in women's, is heavier into fashion in men's than is K mart.

Even in dress shirts, Target not only carries a greater percentage of fancies compared to basics, but the shirts are merchandised in more attractive glass cubes.

Target also recently began a new private label program, called Greatland, which focuses on men's fashion outdoor wear.



More creative wall-fixturing and wider, more department store-like aisles differentiate Target from its competitors.



Bins of apparel still characterize the Wal-Mart look. This discount store remains heavily into the basics, like jeans and flannel shirts.

(DSN photos)

APPAREL

K MART/WAL-MART/TARGET

Wal-Mart Closes Fashion Gap in Children's

While infants', toddlers' and children's wear is not as profitable a segment as men's and women's, the volume is big, and all of the Big Three discount chains are paying more attention to the categories.

Wal-Mart, K mart and Target have upgraded their merchandise mix as well.

Specifically, Wal-Mart, based on in-store observations and interviews with suppliers and retail consultants, has upscaled its infants' & toddlers' department (to a lesser extent its girls' and boys' departments) more aggressively than it has its men's and women's areas over the past couple of years.

Toddlers' Wear Lines

More toddlers' wear suppliers said they sold the same lines to all of the Big Three discount chains than did suppliers in men's or women's. In other words, Wal-Mart, at least in terms of its fashion toddler merchandise, is closer to Target and K mart than it is in other categories.

For example, Wal-Mart carries the upscale French Toast label, which can be found not only in Target but also in Macy's and Bloomingdale's department stores. There is no comparably upscale label in men's or women's that Wal-Mart carries.

Wal-Mart's infants and toddlers' department is also disproportionately large compared to its men's and women's departments.

Suppliers point, once again, to the more rural mentality at Wal-Mart. In addition, these suppliers, at least, feel that more mothers shop with more frequency for their young children at Wal-Mart than at K mart or Target.

Some suppliers also pointed out that Wal-Mart established the credibility of its low price-point toddlers' and children's segment with price-conscious mothers. And now these suppliers feel they're in a position to cash in on that loyalty by adding more upscale merchandise to the mix.

The Leo J. Shapiro and As-



Target breaks out junior boys' from boys' wear, with a lot of fashion variety in the merchandise mix.

sociates consumer study conducted for DSN points to the particular strength that Wal-Mart has in infants' apparel. While more consumers said they shopped more for adult and children's apparel at Target and K mart, the study revealed that more Wal-Mart customers said they mainly spent their money on infants' apparel than did K mart or Target shoppers.

All three chains are carrying the latest all-cotton, pigment-dyed bottoms and coordinated sets in toddlers' and young girls' and young boys'. Also, screen printing on fleece is something that all three chains are into.

K mart even added an in-house designer to come up with original print designs and to work with the manufacturer on certain toddlers' wear lines.

In addition, the influence of young men's styles on boys' wear and juniors' on girl's wear has made the children's segment a more fashionable segment—and a higher margin segment—than it was a couple of years ago.

In terms of sourcing, more children's apparel is sourced on shore compared to men's and women's because expensive unit quota is not going to be used for lower price point categories.

At a K mart visited this fall, there was a boys' grouping of Safari Express fashion apparel, with a Banana Republic-type feel to it.

There was also a lot of licensed apparel, including GI Joe and Disney in fleece prints.

The K mart also had groupings of denim jeans with a soft brushed flannel lining with

rolled cuffs in the toddler girls department.

At Wal-Mart, in the same market, there were less coordinated outfits in this segment, but the infants & toddlers department was large, with much more space between racks than in its men's and women's departments.

Prices, in general, were lower at Wal-Mart, with some fancy sweaters priced at \$6.96, and toddlers bib overalls priced at \$15.97. Wal-Mart had toys in the middle of this department.

Wal-Mart also carried Klifton Kids fancy fleece tops priced at \$7.86. And junior boys' two-piece fleece sets priced at \$8 were part of this particular unit's 25th anniversary sale signage in the front store window.

Target, still the most upscale in merchandise and pre-

sentation, featured specific girls' sizes 7-14 and sizes 4-6X groupings and signage, instead of just girls' in general.

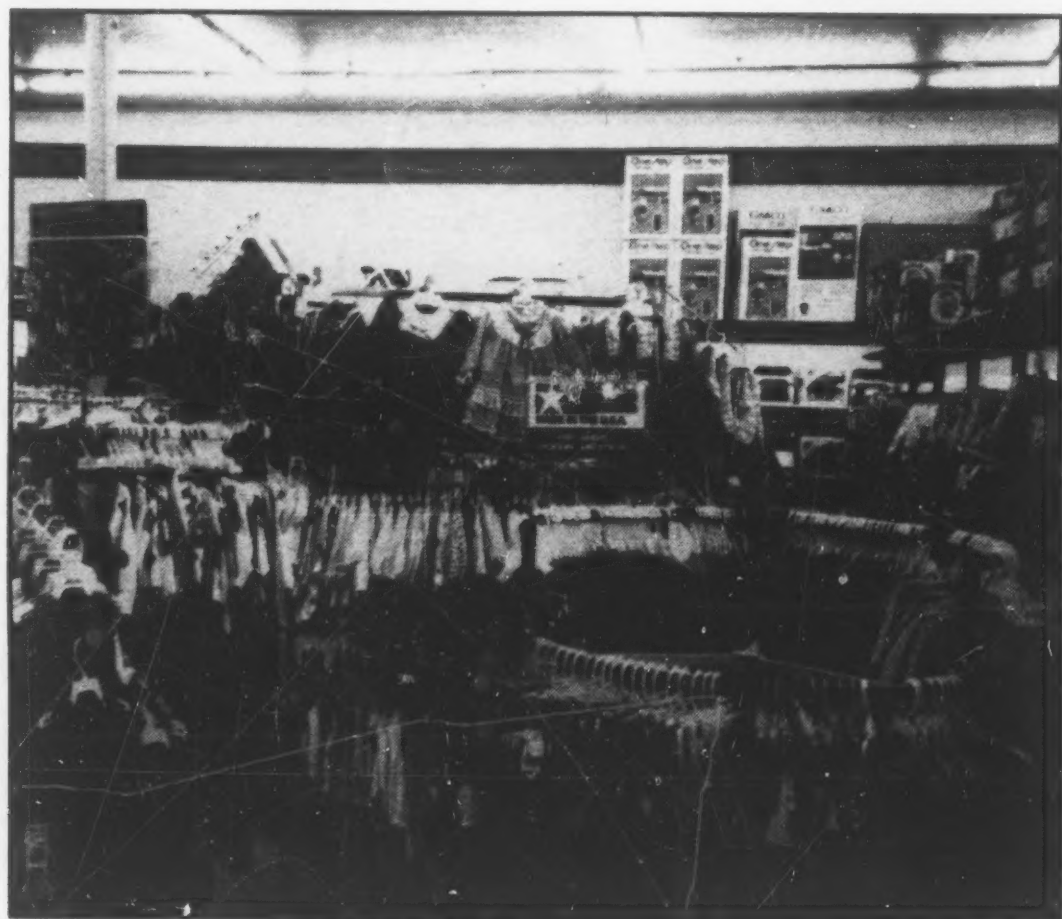
There were Lee Riders stonewash trim fit jeans, \$14, for girls, and Gitano frosted denim jeans, \$19.99.

In infants & toddlers, Target had Small Stars (division of Mayfair) cute overall sets priced at \$9.99, and Lee toddler bib overalls for \$13.99.

In addition, there was four-color Coca-Cola signage for fleece tops for girls.

Groupings for newborn girls and boys were also found at this Target, something the other two discounters didn't break out.

Other merchandise included Lee Rider straight leg jeans for boys for \$15.99, and U.S. Blues-labeled "Top Gun"-type outerwear with patches price at \$20.99.



Wal-Mart's cramped children's department: the store has a comparatively larger infants/toddlers department than any other apparel department.



K mart, Metairie, La., boys' department: a high fashion mix with printed and striped tops. (DSN photos)

APPAREL

K MART/WAL-MART/TARGET

New K mart Prototypes Rack Up Sales Gains

Sales at the two new K mart test prototypes have jumped by 15 percent to 25 percent, depending on the department, according to the sales managers of both stores.

The two mid-sized units—Piqua and Lima, Ohio—reopened Oct. 9, sporting a revamped racetrack layout that features all apparel categories in the infield.

The new store design allows for an increase in apparel square footage, with apparel—including footwear—now taking up one-third of total selling space.

The new layout gives the impression of even greater apparel emphasis, with the center of the racetrack dominating the store.

Customer reaction has been overwhelmingly positive, discounting the initial confusion about where certain items could be found, said Larry Banaszak, the Piqua store manager.

The eight-year-old Piqua store has 59,512 square feet of selling space, and the four-year-old Lima unit has 54,000 square feet of selling space.

Banaszak told DSN, "The store looks totally different, from the new peach-colored walls to much more signage. The customers love it. We're selling things we never sold before."

Banaszak added, "I would think they're [K mart] going to go ahead with it [the prototype rollout]."

Among the departments scaled back to make room for the added apparel were home improvement, health & beauty aids and hardware. The stores' auto service centers were eliminated.

The highlights of the new layout include wider aisles, smaller endcaps and more up-scale fixturing.

The infield consists of four islands, with three aisles dividing each island. Within each island is a tall and wide wall fixture, allowing for creative apparel displays.

Steve Pocza, the Lima store manager, emphasized that the



The Piqua, Ohio, K mart prototype, with all apparel in the infield of the racetrack, has seen sales jump 15 percent to 25 percent.

new layout allows no hidden departments. "With the old store—which had all apparel on the left when you walked in and all hard goods on the right—we had to direct the customer to go two counters down, make a right, and go another two counters down, to get them to a department they were looking for. Now the racetrack passes every department. We just send the customer around the track. It's much more convenient for everybody."

Pocza also said that before the conversion, apparel utilized about 28 percent of the floor space, and he said apparel "was not meeting its sales-per-square-foot goals."

Since Oct. 9, such goals are now being met, he said, adding that some apparel categories have seen close to a 30 percent sales jump over the last two months.

John Rocholl, apparel manager at the Piqua store, said signage has been increased. He said there are now at least

60 graphics in the apparel area. Banaszak also added that 20 store employees have been added since reopening.

However, to get a more accurate sales comparison, local print advertising was not increased after the reopening.

Banaszak said that while 90 percent of the merchandise is the same, there was some upgrading of the mix, especially in apparel, since the reopening. Higher fashion looks like acid-washed denims in men's and women's were increased, said Rocholl.

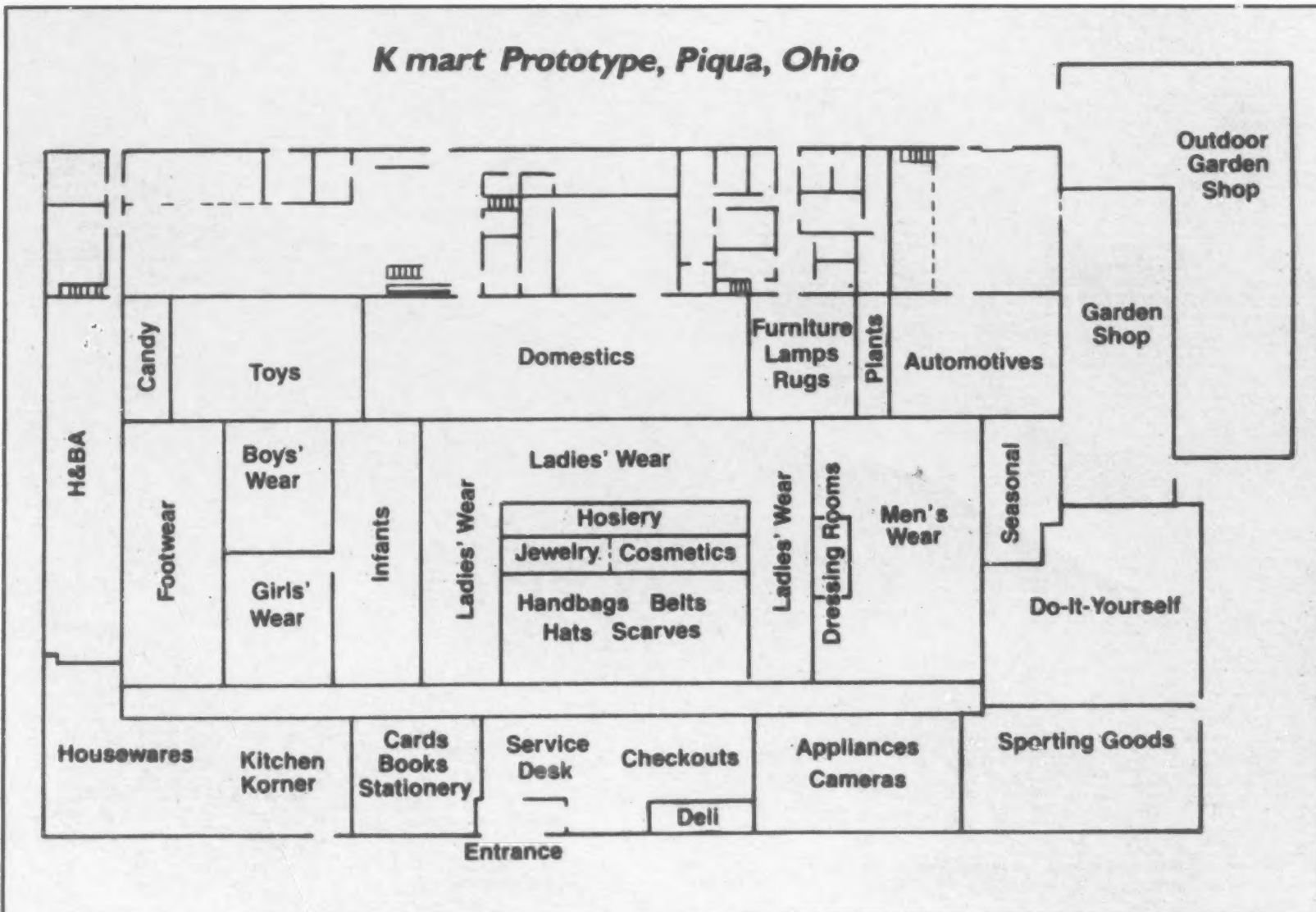
Pocza in Lima said that such apparel brands as Bugle Boy and O.P. were added for the prototype test.

Banaszak said a new

K mart, nine miles up the road from his Piqua store, in Sidney, will open Nov. 28. While it's a full-sized, 89,000-square-foot store, he doesn't expect any problems maintaining his customer base in Piqua. The new Sidney store, a former Cook's unit, does not feature the new prototype test layout.

K mart officials said two months ago that if the test at the two Ohio units was successful, the new store design would be rolled out in all 500-plus Group 7, or midrange, units.

The discounter is also continuing to refurbish existing stores, and in the process adding about 4,000 square feet of apparel space.



K mart's Jaclyn Smith signature collections are prominently positioned at the entrance to the remodeled Piqua, Ohio, store; fashion sweaters and tops abound.

(DSN photos)

Presentation Is Key for Domestics at Big Three

The battle of the top three discounters in domestics will probably be carried out more on endcaps and wall displays than at the cash registers over the next few years. K mart, Wal-Mart and Target all have roughly equivalent name brand products and prices, but there is a distinct difference in their merchandising approaches which will ultimately affect profitability.

In the past year or two, consumers have come to demand more than rock-bottom price. They are looking for top name brands and luxurious thread counts in sheets and towels, which Target, K mart and Wal-Mart all can supply. But they are also now looking for a more fashion-forward environment in which to shop, sending discounters into a paroxysm of store design activity.

What was rapidly becoming a strictly commodity department may have been saved by this new consumer orientation, as shoppers have shown that they'll pay more for fashion—and are more likely to have confidence in a retailer's fashion sense if it provides an appropriate presentation.

The issue, according to a major supplier, is now who will establish a greater level of consumer confidence in discounters' fashion sensibility. "All three do a good job of buying the best products at the best price," he said. "But Target has done the best job of presenting its assortment in a mass merchandising context."

He points to Target's "trend merchandising," changing its assortments several times a year to keep up with the latest styles and colors. "Target has also been very good at selling coordinated looks, which builds consumer confidence in the stylishness of the whole department." He also gives Target high marks in display techniques and fashion credibility.

K mart, in its newest units, is taking a modified approach to the presentation issue. "They're presenting towels by



Target's 'trend merchandising' approach to domestics requires that the discounter change its assortments several times a year.

color rather than style and doing a lot more in coordinated displays," one source said. "Most mass merchants have upgraded their presentation along with the products they sell, and K mart is among the best at merchandising." Said another, "K mart has also kept up its promotional image, and its Cannon Weeks have been terrifically successful, selling upward of \$60 or \$65 million each time. It has combined price and fashion very well, although it might be going too far upscale."

Wal-Mart gets very high grades for its product lines and prices, but its presentation leaves a lot to be desired, according to one manufacturer. "In bedding and bath, Wal-

Mart is tops, with its \$3 and \$4.99 towels; it has the best products. They also have the best-developed percale sheet program in the industry. However, it's obvious that they have chosen not to spend their money on display." However, another supplier noted that "Wal-Mart, with its Common Sense program developed with Stevens and Cannon, is sticking to its best buy approach; it has added eight to 12 endcaps for fashion merchandise, but that's about as far as it goes."

The display issue is particularly crucial and timely in the discount world, as mass merchandisers fight for an increasingly fashion-conscious domestics dollar. Department

stores have traditionally beaten discounters badly in public perception in this area because of their attention to carrying top brand names and promoting the fashion aspect of their products.

Discounters have cut into the market by matching department stores brand for brand, but have not been able to get consumers to trade off fashion security for price only. Further, linen specialty shops have been very successful in tapping into discounters' market shares.

"It's a struggle to keep this area profitable for merchants," one supplier said. "The key to maintaining margins is offering a fashion-forward image, a total coordinated package and fair prices. Gold Circle is doing a terrific job in presentation, and Target is right behind them."

Spending a lot of time and money on display is anathema to Wal-Mart, but as the chain continues to move into larger markets, it will probably find it necessary to add some dazzle-dazzle to remain competitive with its more fashion-conscious opposition.

A spokesman for a leading manufacturer said that display and presentation will continue to rise in importance even more as the consumer becomes better educated about the product. "All this thread count information is confusing people," he said. "We have everything from 120 up to 250, but the consumer really doesn't know what it means. She has been flooded with new packaging and an overabundance of information."

"What she's looking for," he continued, "is attractive, styl-

(Continued on page 148)



With superior product and low price, Wal-Mart often offers the best values in bed and bath. But, its presentations often suffer in comparison to the more fashion-oriented discounters. (DSN photos)

Wal-Mart Excels in Domestics

Percent of shoppers who mainly spent their money on domestics at the store during the past year

	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)			
Home Soft Goods (Net)	3.8%	4.3%	4.2%
Towels	1.7	2.3	2.6
Linens/Bedding	1.8	4.3	2.4
Drapes/Curtains/Blinds	0.0	0.6	0.0
In Small Metro Areas (Pop. 50,000 to 1 mil.)			
Home Soft Goods (Net)	3.1	6.1	3.8
Towels	1.6	2.4	2.2
Linens/Bedding	1.7	3.7	0.7
Drapes/Curtains/Blinds	0.7	0.0	1.5
In Non-Metro Areas (Rural)			
Home Soft Goods (Net)	2.2	2.5	1.7
Towels	0.6	1.4	0.0
Linens/Bedding	1.6	1.2	1.7
Drapes/Curtains/Blinds	0.6	0.0	0.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

HOME PRODUCTS: DOMESTICS

K MART/WAL-MART/TARGET

Presentation Is Key for Domestics at Big Three

(Continued from page 147)
ish products that represent a good value."

Another manufacturer agreed, adding that the result will be more textured looks and less emphasis on solid color towels. He said that several retailers, most notably Gold Circle and Target among discounters, have done a good job of combining the traditional mass merchandise approach of plenty of stock and cheap prices with a more fashion-forward look to their departments.

All three chains are heavily brand-driven, as consumers have become increasingly un-

willing to buy anything but top brands in domestics and linens. However, each chain has distinct preferences among top brands.

For instance, perennial market leader Cannon, a discount staple, was a hit with K mart and Wal-Mart store managers, but did not fare as well with Target managers, according to DSN's 1987 Top Brands survey, released earlier this year.

J.P. Stevens, the second most popular brand name overall among discount store managers, reversed the field, scoring well with Target managers and poorly with both K mart

and Wal-Mart, even though Target has reportedly cut back its commitment to Stevens and Wal-Mart has stepped up its buying from the company.

St. Marys, like Cannon primarily a discount brand, scored well with discounters as a whole, but did poorly with all three of the leading chains.

Pepperell, which was described by two manufacturers as coming on strong at Wal-Mart, did not receive a single mention from that chain's man-

agers, but scored well with managers at Target.

While most suppliers seemed to feel that the Big Three will have to become more fashion conscious, one noted that "we propose, they dispose."

K mart and Target are clearly trying to upgrade their shopping environments while retaining the approaches that have been successful for them over the years. Wal-Mart, however, seems to have done fairly well to date without making a

fashion statement.

Nevertheless, the acceleration of consumer expectation of high fashion in the home, presaged by the refueling of interest in interior design, wallcoverings and other home fashions, will eventually bring pressure to bear on all discounters.

And, since discounters are best known for giving the public what it wants, expect to see more discounters taking the fashion-forward road.



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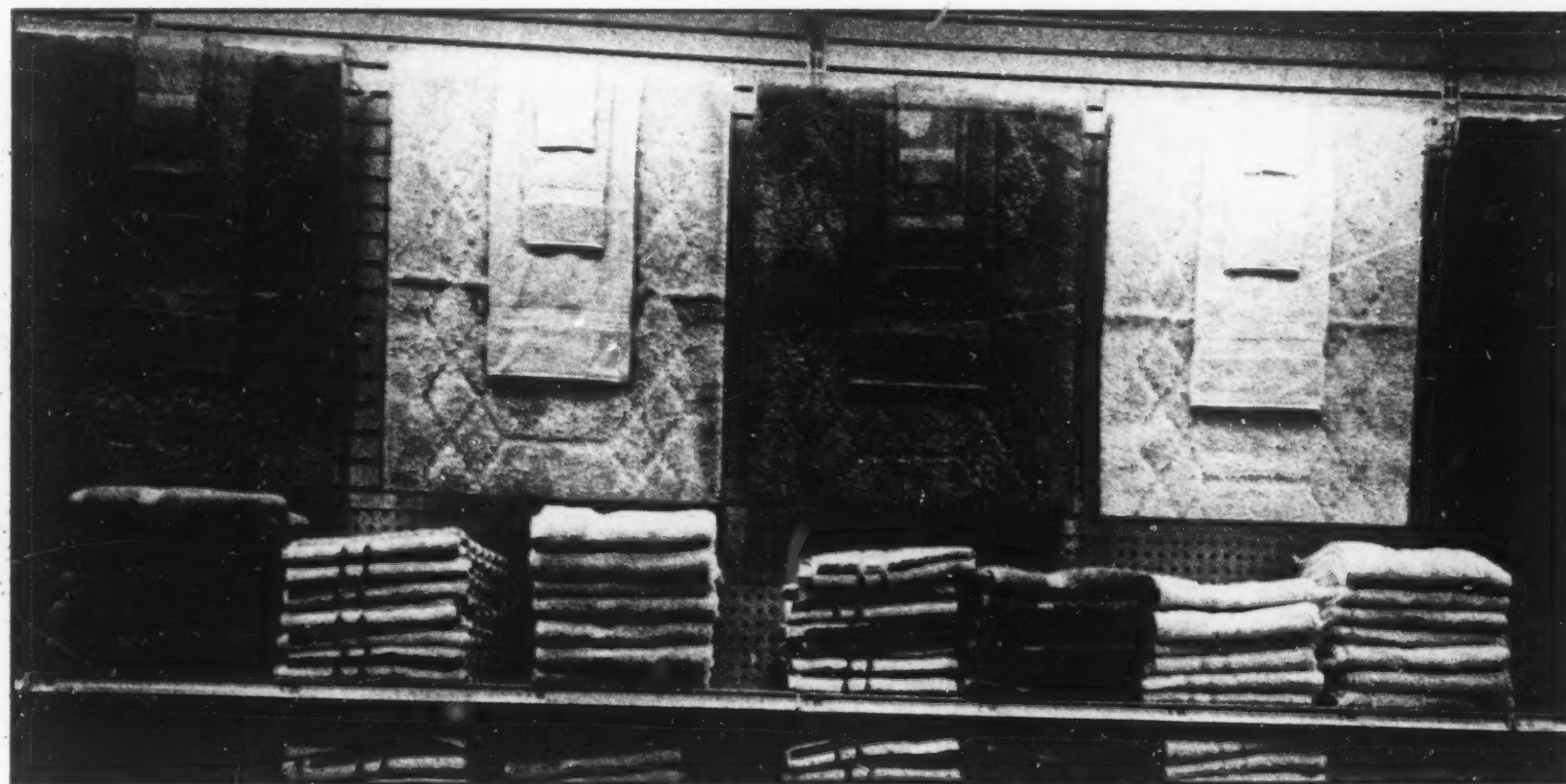
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In its modern units, like this one in Sterling Heights, Mich., K mart presents towels by color rather than style. The chain has upgraded product and presentation, while keeping a promotional image.



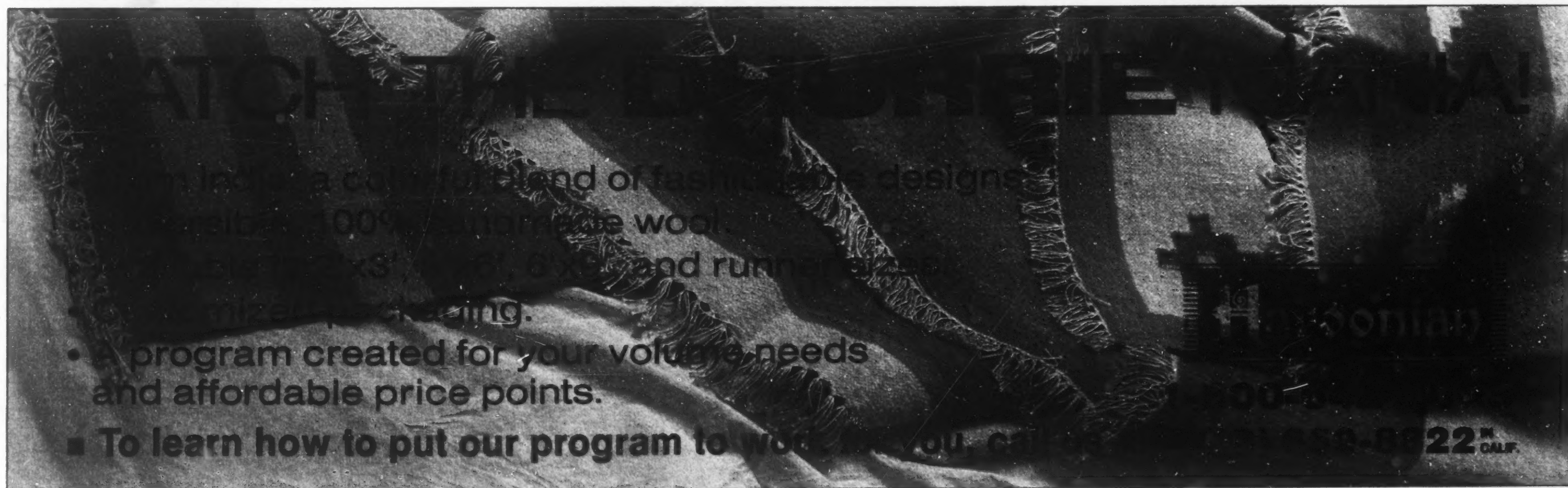
'The key to maintaining margins is offering a fashion-forward image, a total coordinated package and fair prices,' said a supplier. This Target in Detroit scores on all three counts. (DSN photos)

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Housewares Mirrors Overall Chain Strengths

Given the opportunity to candidly appraise their key accounts, housewares vendors independently confirmed what have long been viewed as virtues of the nation's three largest discounters: K mart is usually the housewares promotion king; Wal-Mart is tops in aggressive everyday low pricing on most housewares merchandise; and Target is closest to the cutting edge of housewares fashions. But each chain has its shortcomings, vendors admitted.

K mart lacks aggressive everyday low pricing, timely response to market fashion trends in housewares and an understanding of what really happens at store level due to the enormous size of the chain.

K mart's size was paradoxically viewed as both a major asset and a stumbling block. The chain has certainly become more widely known than any other general merchandise retailer due to its greater number of stores. In addition, the creation of Kitchen Korner has drawn attention to its housewares assortment.

Long-Tailed Dinosaur

Nonetheless, one vendor summed up the sentiment of his peers when he compared the discounter to a dinosaur with a long tail. "Someone at store level taps him at the end of his tail to tell him something he needs to know, but by the time the information gets from the tail to the brain, a lot of time has gone by."

Advanced information technologies now being devised at headquarters could resolve some of the shortcomings of bigness in the future. Near at hand is the sprucing up of its housewares appearance.

A revitalization of K mart's fashion image in housewares is now underway through the introduction of cookbook author, Martha Stewart, as spokeswoman for its Home Fashions Division. Associating this personality with the reformatting of 406 of the chain's Kitchen Korners in 11 markets last month could signal a turnaround in K mart's housewares fashion deficit.

Unlike K mart, vendors said Target is current in fashion, but at times sacrifices basic sales to maintain that image. Out-of-stocks were cited



Kitchen wallpapering enhances Wal-Mart's cookware display in Eureka, Mo. Boxed stock shelves above and below give the section the chain's customary 'stocked to the teeth' appearance.

Target Holds Strong Housewares Image

Percent of shoppers who mainly spent their money on housewares at the store during the past year

	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)			
Housewares/Bath			
Accessories	15.7%	13.9%	22.4%
Small Electrics	1.1	2.1	2.6
In Small Metro Areas (Pop. 50,000 to 1 mil.)			
Housewares/Bath			
Accessories	18.0	10.9	20.9
Small Electrics	2.6	2.9	4.8
In Non-Metro Areas (Rural)			
Housewares/Bath			
Accessories	18.2	19.6	26.4
Small Electrics	4.0	2.6	1.7

Source: Leo J. Shapiro & Associates/DSN, December 1987

by some vendors as a problem the chain needs to address.

Housewares industry sources said that Target has successfully managed to differentiate itself from the competition by developing a fashion-forward assortment in housewares. But, the chain's single-minded direction has made it less of a powerhouse than it could be, sources said.

"Target needs to be more realistic about where the tonnage business is done," one vendor said. "Target has too many facings of a single product which narrows the selection," another said.

However, Target buyers have created a department that promotes add-on and impulse purchases with colors in everything from dinnerware to plastics. The fashion ingredient draws the shopper into the area and encourages her to think about how otherwise basic housewares merchandise

could become fashion accessories to dress up her kitchen.

If vendors believe Target is in error by limiting the amount of housewares commodities it carries, perhaps they do not fully understand the Target customer who can afford to spend a little more to get more than function from her housewares purchase.

While vendors said that Wal-Mart has a few of its own glitches, none of those shortcomings could be found in housewares, where adequate stocking, sharp everyday and promotional pricing, and broad selection are accentuated by dedicated store employees. These successful elements overshadowed the fact that Wal-Mart's merchandise does not have the colorful zip that Target offers. But, like Target, Wal-Mart is geared toward its own shopper base—with fewer dollars to spend on non-essentials.

MARKET BASKET: Housewares

Prices on selected housewares sold at all three chains

Market	K mart	Wal-Mart	Target
Corning Visions, 2½-qt. saucepan with cover, V-2½-N			
Austin, Tex.	\$17.97	\$15.96	\$14.99
Memphis, Tenn.	17.97	15.96	17.49
St. Louis, Mo.	N	15.96	14.99
Wichita, Kan.	17.97	N	14.99
Corning Visions, 6-piece set, V-300-N			
Austin	N	24.96	29.99
Memphis	24.96	24.96	22.99
St. Louis	27.66	24.96	28.99
Wichita	28.96	28.96	34.99
Sunbeam Oskar food processor, white			
Austin	56.93	48.68	49.99
Memphis	59.68	48.68	49.99
St. Louis	57.88	59.68	49.99
Wichita	56.00	59.68	49.99
Oster Galaxie Cycle blender, 869-16			
Austin	31.88	23.94	24.99
Memphis	23.94	25.94	23.99
Wichita	23.79	23.94	23.49
Regina 3-speed Elektrikbroom vacuum, No. HB7839			
Austin	49.87	N	47.99 ¹
St. Louis	39.99	39.43	39.99
Wichita	N	39.43	46.99
Nordic Ware Micro-Go-Round, No. 62301			
Austin	29.96	17.97	24.99
St. Louis	24.94	N	24.99
Rubbermaid twin sink dish drain, No. 1180			
Austin	5.38 ²	3.97	N
Memphis	N	6.58 ³	5.99 ³
St. Louis	4.83	2.96	2.99
Wichita	3.83	2.96	2.99
Ekco Bakers Secret 5¼-in. by 9¼-in. loaf pan			
Austin	N	1.96	3.49
Memphis	2.87	2.46	2.49
St. Louis	3.29	2.46	2.49
Wichita	1.97	2.46	3.49
Ekco Bakers Secret 12-cup muffin pan			
St. Louis	4.49	3.96	N
Wichita	4.86	3.96	N

¹No. 7439; ²No. 6008; ³No. 6032-25

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research

"Wal-Mart has a concept of people," one vendor said. "Store level people don't just do a job. They take pride in a display and the proper execution of a buyer's plans. Another chain's store people might leave a sold-out display empty, but at Wal-Mart they will make something up to fill the display if they don't have more of the same product to fill it."

Research findings verified shopper's attitudes that Wal-Mart has store level employees who are more helpful and courteous than those of the

other two chains. However, a higher percentage of shoppers at Target named housewares/bath accessories as the product category in which they mainly spent their money at the store in the past year.

Target's edge in fashion has evidently gone a long way in meeting the needs of its customers. Interviews with 1,800 heads of households across the country revealed that Target's housewares department has relatively more merchandise that customers want than either K mart or Wal-Mart.



Geese are one of several motifs that unify the home fashion display at this recently opened Detroit area Target.



Consumer brand awareness in housewares keeps price competition stiff at K mart's Kitchen Korner, Sterling Heights, Mich.

(DSN photos)

K mart Promotes CE to Capture High-End Biz

While K mart may be way ahead of most retailers in total sales of consumer electronics, it may not be able to sustain that lead if it misses its aim on a new important market—upscale customers.

Figures from a number of industry sources pegged K mart's sales in consumer electronics at around \$2 billion, double those of the leading CE specialty retailer, Circuit City, almost triple Wal-Mart's CE sales of \$800 million, and four times Target's estimated annual CE sales of between \$400 million and \$500 million.

However, the Troy, Mich., chain has been both criticized and complimented by manufacturers and other industry executives for broadening its product mix to appeal to a more upscale customer. Of the Big Three discounters, K mart has made the strongest commitment to carry more high-end goods, sources said.

In video, for example, K mart is the only one of the Big Three to carry a recently introduced four-head Panasonic VCR with bar code programming that sells for between \$400 and \$450.

K mart has been applauded for its attempt to change with the market. Most everyone in the industry agreed that due to the current slump in CE business and the recent stock market crash, the only customers that may have the discretionary income to spend on electronics will be those in a higher income bracket.

"K mart is on the ball," said an industry observer, who asked to remain anonymous. "It is increasing its floor space to display the higher-end products and has started a more aggressive advertising and promotion campaign on the higher-end items."

K mart's more serious quest to be a dominant retailer



Portable electronics at K mart: CE is among several 'dominant' categories which have been top performing departments this year.

of consumer electronics can be viewed in the chain's Roseville, Mich., store. "In my opinion, it's the best electronics department we've ever had," commented chairman and chief executive officer Joseph Antonini, in a recent interview with DSN. "I'm real impressed with it... It's more expanded and gives more focus to categories and a little more space... a nice approach for that dominance we are trying for in that area."

But, can a discount department store ever be "dominant" when compared to a CE

specialty or superstore electronics retailer?

"You probably won't be as dominant but you can be dominant enough not to lose market share," said Antonini. The executive pointed out that this year K mart is experiencing its best results in departments like electronics where this effort at category dominance is most pronounced.

The new department prototype also carries microwave ovens and sports new signage, said Antonini. And, like the CE specialty chains, K mart promises to meet any lower

price in a market on an identical item.

Sources said that K mart's aggressiveness has resulted in the chain garnering more profits, a feat that has been elusive for many electronics retailers, who have had a very

difficult time this year. J.C. Penney, as an example, has decided to terminate its CE business because it was unhappy with its profits in that category, and a number of CE specialty chains have reported

(Continued on page 154)

MARKET BASKET: Consumer Electronics

Prices on selected CE products sold at all three chains

Market	K mart	Wal-Mart	Target
Prerecorded video, Disney Children's Classic			
Memphis, Tenn.	\$14.88	\$ 12.83	\$ 9.99
St. Louis, Mo.	14.95	9.96	14.99
Wichita, Kan.	27.76	27.76	26.95
Compact disc, 10-in., Madonna "Who's That Girl?"			
Austin, Tex.	17.33	12.96	12.99
Memphis	13.44	14.77	12.99
St. Louis	17.33	14.97	12.99
Wichita	17.33	14.77	12.99
Single LP album, Whitney Houston "Whitney"			
Austin	9.23	8.24	8.99
Memphis	9.87	6.96	6.99
St. Louis	8.77	8.46	8.99
Wichita	9.47	6.96	6.99
Blank videotape, T-120			
Austin	3.77 ¹	3.96 ¹	4.99 ¹
St. Louis	4.97 ²	3.96 ¹	5.89 ¹
Wichita	3.97 ³	3.96 ¹	4.99 ¹
TDK blank audiocassette, 2-pack, 60-min.			
Austin	2.47	2.27	2.94
Wichita	1.97	2.27	2.39
Emerson VCR-754			
Austin	N	199.63	199.99
Wichita	N	199.63	239.99
RCA 12-in. black & white TV			
Austin	69.00 ⁵	62.86 ⁶	N
St. Louis	69.00 ⁶	62.87 ⁶	57.99 ⁶
Wichita	69.00 ⁶	62.86 ⁶	49.99 ⁷

¹Sony; ²Maxell; ³TDK; ⁴Scotch; ⁵BWT 122W; ⁶BCR 128; ⁷Samsung 12-in. b&w TB1210
Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research



Target gets high marks for its neat, clean, well-lighted presentations of CE products. (DSN photos)

HOME PRODUCTS: CE

K MART/WAL-MART/TARGET

K mart Promotes CE to Capture High-End Biz



Televisions, VCRs, camcorders and antennas on display at Wal-Mart's Eureka, Mo., store: Despite its low price points, the discounter manages to carry many of the newest CE products.

(Continued from page 153) reduced profits due to unbundled competitive factors.

Wal-Mart and Target continue to zero in on their basic customer bases, said several vendors. Target sells electronics to low- to middle-income customers while Wal-Mart carries a limited selection of basic low-end product, a move that some suppliers feel is a great strength of the chain.

A number of industry veterans point out that limited product selection actually benefits discount stores because it narrows the choice for consumers, alleviating confusion especially if sales help is not available. K mart and Target carry a wider selection than Wal-Mart. And, Target stocks more cartons on the sales floor, which gives it more of a warehouse look.

Both Wal-Mart and Target have a neat, clean presenta-

Wal-Mart Gathers More CE Shoppers

Percent of shoppers who mainly spent their money on CE at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	3.3%	4.4%	2.9%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	1.6	4.1	2.9
In Non-Metro Areas (Rural)	1.3	1.8	0.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

tions of CE products. Their departments are usually in or near a main aisle in the store. In contrast, K mart's tend to be more isolated. Both use extensive lighting to showcase the merchandise.

Target has developed a new prototype to focus on highlighting its electronics presentation. It has been working on updating fixtures and displays with warmer colors.

In a consumer study conducted by Chicago-based Leo J. Shapiro and Associates for DSN, Wal-Mart customers more often said they mainly go to that store for electronics products, than did K mart or Target customers in all three types of markets surveyed: metropolitan areas of 1 million population and over, small metro areas of between 50,000 and 1 million residents, and non-metro/rural areas.

This could be due to Wal-Mart's "homey" ambience. It is the small town store; store personnel are familiar with

customers and customers feel loyal toward the chain. K mart and Target stores are more impersonal, mostly located in big shopping malls.

Most observers agree that currently the lowest price points on CE products carried in all three stores can be found in Wal-Mart stores while the highest price points are found at K mart.

Wal-Mart seems to have more current merchandise than Target. In Wichita, Kan., for example, Target carried a QT-242 Sharp portable stereo that was discontinued and either bought as a closeout or had been an inventory leftover for \$49.99. At a comparable price of \$49.97, Wal-Mart had a much newer model in Sharp's portable audio line, GF-330.

The GF-330 is a product that is targeted for a little older customer base with more income than the QT-242, which was targeted for a younger audience in its design.

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Beverage Division
Food Products Division
Health & Personal Care Division
Packaged Soap & Detergent Division
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Vidal Sassoon



Sources say that K mart is one of the few mass merchandisers not losing market share to the CE superstores. (DSN photos)



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K mart Leads Top Chains in Photo/Camera

K mart is living up to its reputation in the industry as the dominant discount-er in the overall photo and camera business.

K mart's photo/camera sales account for 15 percent of all photo retail business in the country, according to several published reports.

It is the consensus of the industry that K mart's volume in the photo/camera category is at least double that of Wal-Mart and Target.

However, when K mart is compared to Target on a per store basis in film sales, it falls short. Target is able to make more in film sales per store than K mart because of the tremendous amount of advertising space it devotes to film and the larger amount of floor space given the department in its stores.

Film Price Wars

Target is very competitive in film pricing, very close to or lower on many items than either K mart or Wal-Mart.

For example, according to a market basket survey conducted by DSN on four different markets in October, Target matched K mart in price on Time-Zero SX-70 film, twin pack, while surprisingly, Wal-Mart, known for its low prices in most categories, was significantly higher at \$16.58 in Austin, Texas. In St. Louis, Wal-Mart remained the highest priced at \$16.58 on the sku, while K mart had a price of \$15.97 and Target remained lowest at \$15.39.

Target carries Kodak and a private brand film; K mart sells Kodak, Fuji and its own brand, K mart Focal. Wal-Mart stocks Kodak and a private brand by Scotch. All three discounters are capturing

ing the renewed interest in instant photography by obtaining strong sales in Polaroid film, said industry sources.

According to DSN's 1987 Top Brands survey, released earlier this year, Kodak was mentioned by nine out of 10 store managers at K mart, Wal-Mart and Target as being their best performing brand.

Polaroid Second

The second best performing brand at Wal-Mart and K mart was Polaroid. Seven out of 10 Wal-Mart store managers named Polaroid as a top performing brand, while six out of 10 K mart store managers said likewise.

Kodak was mentioned by 9 out of 10 managers at K mart, Wal-Mart and Target as their best brand.

At Target, Canon was mentioned more often, with five out of 10 store managers naming Canon as a top performing brand. A strong 42 percent of Target store managers named Polaroid to be one of their best performing brands.

Discount stores have really become the photo source since the big consumer swing from cartridge film to 35mm film. Discount stores, according to industry observers, have done the best job in capturing this new business.

Target and Wal-Mart customers, in all types of markets, have a tendency to go to one of those discount stores specifically for tapes or film than do customers of K mart.

According to research conducted for DSN by Leo J. Shapiro Associates, Chicago, a higher percentage of Wal-Mart shoppers in metro areas of 1 million or more population said they mainly spend their money on tapes and film at Wal-Mart than did shoppers at either Target or K mart.

In small metro areas of between 50,000 to 1 million residents, Target recorded the highest percentage of shoppers who said they mainly spent their Target dollars on tapes and film during the past year. In non-metro/rural areas, Wal-Mart was clearly dominant in the tapes/film area.

Discounters Push Harder

Discount stores, in general, seem to be pushing harder to get photo finishing business away from drug stores, which used to be the predominant format in that area.

K mart, Target and Wal-Mart have all recognized that this is the way to achieve repeat visits. Target took the concept one step further and became the trend-setter on self service finishing for customers two years ago.

Two Have Minilabs

Further, K mart and Wal-Mart have installed minilabs in stores, and Wal-Mart has its own lab. Target does not have minilabs or a lab of its own yet.

All three have started selling more 35mm autofocus cameras, reflecting the trend to that type of equipment. K mart and Target have gone aggressively after self-service blister packs of cameras on pegboards with a large selection of price points from \$10 to \$80.

Wider Selection

K mart has the wider selection of price points on cameras than Wal-Mart and Target, suppliers said. Furthermore, it is also believed that K mart has the most knowledgeable salespeople.

In pricing, Wal-Mart seems to have the lowest prices on cameras. Among the three discounters, Wal-Mart was significantly lower in price on a Minolta Maxxum SLR 35mm, number 7000, in Austin, Texas. Wal-Mart was selling this model in October for \$340, while Target had it



In overall volume, K mart is the dominant discounter in the photo and camera business. Its sales people are considered top notch by sources in the industry.

MARKET BASKET: Photo/Camera

Prices on selected photo/camera products sold at all three chains

Market	K mart	Wal-Mart	Target
Kodak disc film, twin pack, 30-exp.			
Austin, Tex.	\$ 3.96	\$ 3.83	\$ 3.99
Memphis, Tenn.	4.37	4.26	4.29
St. Louis, Mo.	3.99	4.77	4.19
Wichita, Kan.	4.39	4.38	4.39
Canon Sure Shot Supreme, 35mm camera			
Austin	188.00	169.87	169.99
St. Louis	N	169.87	179.99
Time-Zero SX-70 film, twin pack, 20-exp.			
Austin	14.99	16.58	14.99
St. Louis	15.97	16.58	15.39
Kodak, 35mm color film, 24-exp.			
Austin	2.99	2.24	2.69
Memphis	2.17	2.24	N
St. Louis	2.76	2.76	2.59
Wichita	2.39	2.38	2.49
Kodak, 110 color print film, 12-exp.			
Austin	2.26	2.07	N
Memphis	2.38	2.18	2.19
St. Louis	2.38	2.07	1.89
Wichita	1.89	2.07	1.89
Polaroid Spectra System			
St. Louis	139.99	127.67	139.95
Wichita	127.97	127.67	139.99
Polaroid Spectra film, single pack			
Austin	9.96	8.67	N
Memphis	N	8.67	8.48
St. Louis	8.97	8.67	8.29
Wichita	8.62	8.62	N

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

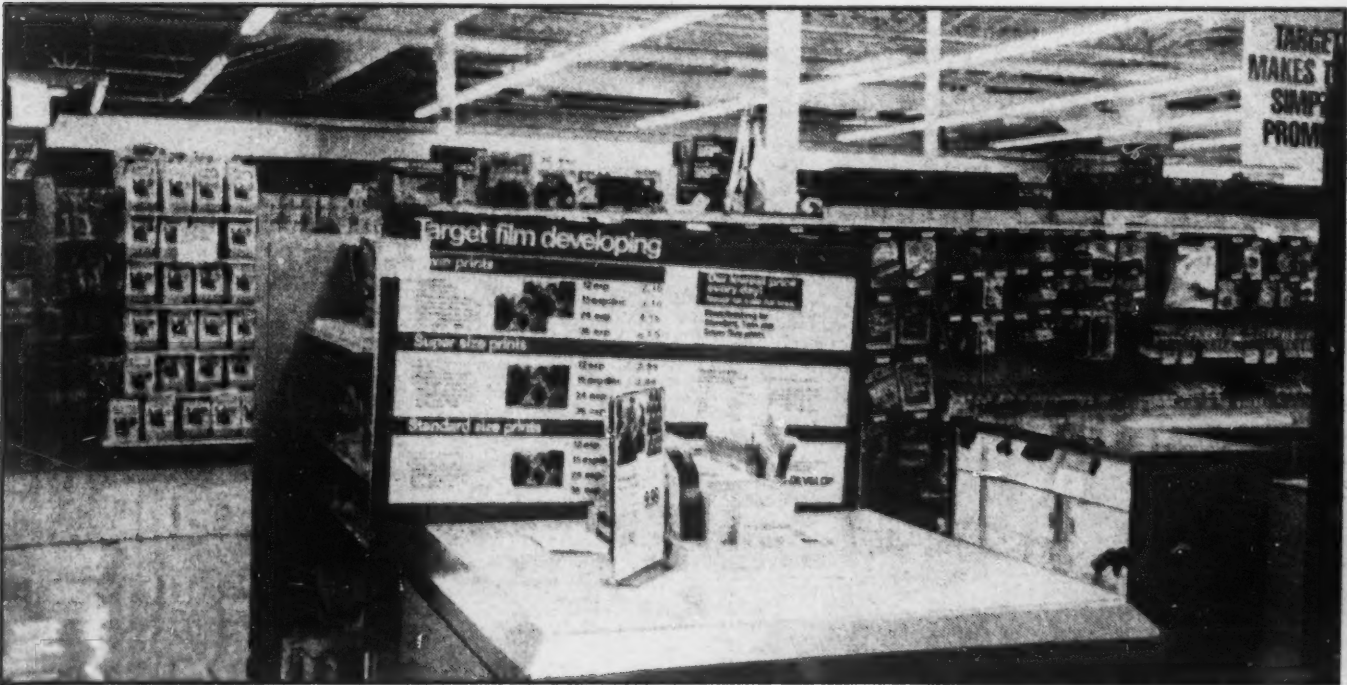
Source: DSN research

In Photo, Wal-Mart's The One in Rural Areas

Percent of shoppers who mainly spent their money on photo/camera at the store during the past year

	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)			
Tapes/Film	1.8%	4.1%	3.9%
In Small Metro Areas (Pop. 50,000 to 1 mil.)			
Tapes/Film	1.2	1.7	4.0
In Non-Metro Areas (Rural)			
Tapes/Film	0.0	2.4	0.0

Source: Leo J. Shapiro & Associates/DSN, December 1987



While it does not have mini labs like K mart and Wal-Mart, Target does offer film developing. It also sells blister-packed cameras on pegboards nearby.



Wal-Mart usually locates its photo departments near consumer electronics, creating a sort of synergy between the two departments. (DSN photos)

Wal-Mart Leads in Price, K mart in Selection

As it does in most merchandise categories, Wal-Mart proves itself to be the aggressive price leader in automotive parts and accessories in markets where it bumps heads with K mart and Target.

But K mart appears to have an edge in terms of breadth of product selection. And, a respectable number of non-apparel customers at Target still head primarily for the automotive department when they shop Target stores, even though the upscale chain last year dropped automotive service and replacement parts.

As do almost all discount department stores, the Big Three restrict themselves primarily to commodity, high-volume merchandise, such as motor oils, filters, spark plugs, chemicals and appearance accessories, leaving slower turning hard parts to auto parts specialty chains.

Limited Automotives

Target's automotives offerings became even more limited last year, however, after it scrapped automotive service entirely and dropped merchandise such as shocks and tires. Target now calls the department "auto accessories." The department offers mostly brand names, including Delco batteries, although it carries private labels in two major product categories, oil and air filters.

Keeping up with the pickup and van boom, Target stocks a limited line of accessories such as running boards, bed liners and molded plastic pickup truck tool boxes.

Auto parts chain competitors and manufacturers representatives alike give Target high marks for the way it handles its remaining automotive lines.

"Target merchandises very well," said one representative. "Presentations reflect its upscale, department store origins," he said.

"Target does a better job than K mart in operating cleaner, neater automotive



K mart appears to stock the widest variety of automotive supplies among the Big Three discounters.

departments," said a senior buyer for a major auto parts chain. "Target has a leg up on K mart because it maintains a pleasant atmosphere. They have the reference tools on hand to look up what you want," the buyer added.

On the flip side, "Target isn't really aggressive in trying new things. It plays follow the leader," the buyer said.

"At K mart, catalog pages often are torn or missing. Its method for presenting products appears to be, 'wherever it fits, it goes,'" the auto chain buyer said.

Target still carries appearance chemicals, like waxes, cleaners and protectants, and the category continues to show a good growth pattern, said an executive for a major auto wax supplier.

In a cut back of auto service, K mart has stopped putting automotive service centers in its new stores and closed service centers in about 75 others

over the past 18 months. That still leaves, however, about 1,400 K mart stores that offer installed or carry out prices on tires, mufflers, coil springs and shocks, along with auto services such as brake jobs, tune ups and radiator flush and fills.

In a merchandising innovation, K mart now gives top billing on its private label batteries to the brand name of the supplier. Therefore, its Motorvator private label battery also carries the name of the suppliers, including Delco Remy and Exide.

In contrast to K mart, Wal-Mart is expanding automotive service, increasing the number of Wal-Mart Discount City stores offering such major automotives merchandise as tires to about 225 from around 175 in 1986. In addition, its Sam's Wholesale Clubs have become a major factor in tire installation by offering major brands, such as Michelin, at

No Clear Lead in Automotives

Percent of shoppers who mainly spent their money on auto supplies at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	9.8%	3.3%	6.4%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	13.3	15.2	20.0
In Non-Metro Areas (Rural)	7.8	8.0	5.0

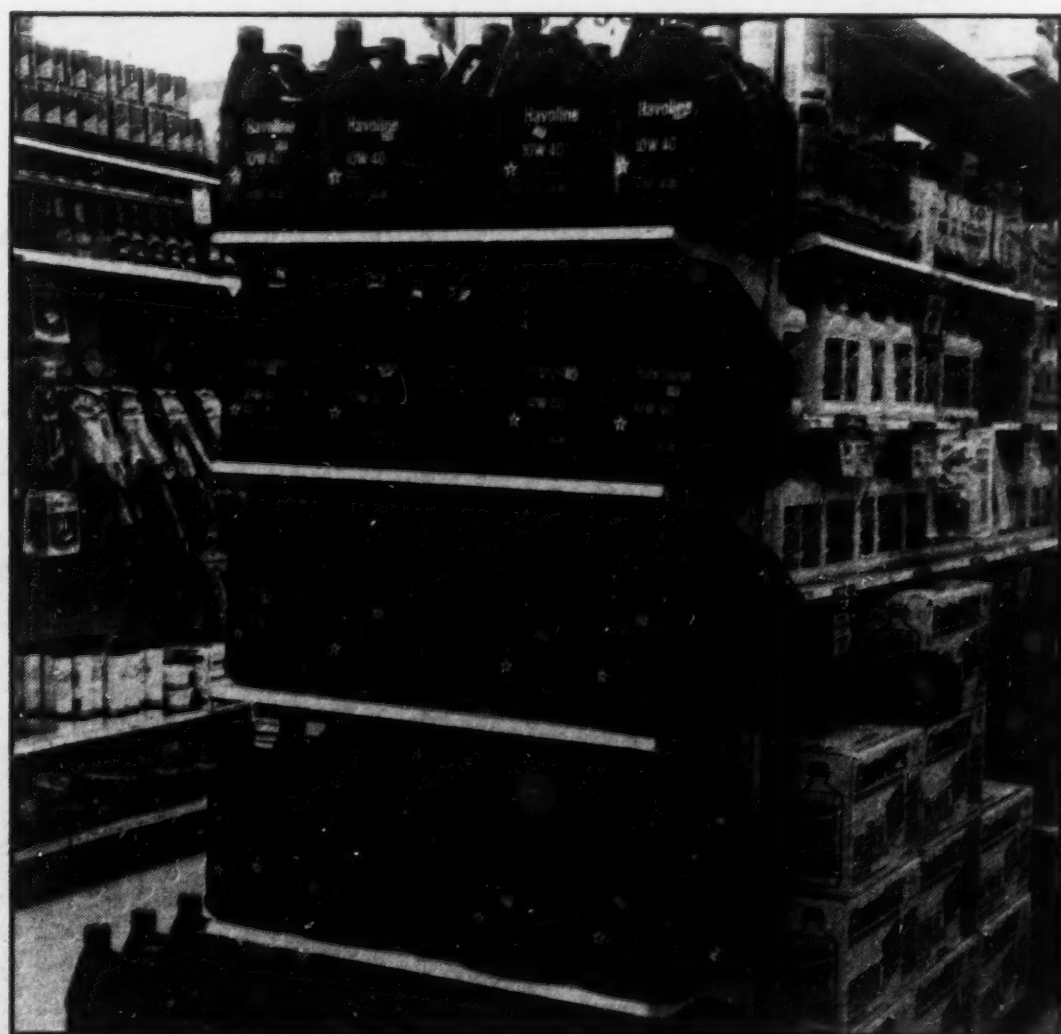
Source: Leo J. Shapiro & Associates/DSN, December 1987

prices up to two-thirds off those at independent tire shops.

To help maintain its status as the aggressive price leader of the Big Three, Wal-Mart has made major progress in eliminating the role of manufacturer representatives in automotives, (as well as hardware and electricals), despite opposition from the reps. In theory, buying direct from the

factory can shave extra points on prices, although manufacturers are unlikely to concede the full amount of reps' commissions because they have to assume costs that reps handle.

"Wal-Mart has carved out a viable niche in automotives," said an executive for a major appearance chemicals vendor. "K mart appears to be getting more aggressive," he said, (Continued on page 163)



Wal-Mart has installed itself as the low-price leader in automotives with consistently sharp prices in all its markets.



Target carries appearance chemicals: waxes, cleaners, protectants, fluids and oils. (DSN photos)

HARD LINES: AUTOMOTIVES

K MART WAL-MART/TARGET

Wal-Mart Expands Automotive Service as K mart Cuts Back

While Wal-Mart is expanding automotive service, K mart is cutting back. The twin developments stress even more their respective thrusts: Wal-Mart toward hard goods and K mart toward soft goods.

Target, the consummate soft goods discounter, is out of the auto service picture completely. It closed all 193 of its remaining service centers in February 1986 and converted the space to soft goods.

Before taking the ultimate step, Target had cut back to specialized auto service in tires, batteries and shocks from general service.

Out of 121 new Wal-Marts opened last year, 49 got auto service centers. Most of the larger, urban stores built this year are getting service centers. Overall, 225 out of Wal-Mart's approximately 1,100 stores offer auto service. Moreover, Wal-Mart is going to test quick lube service at its new hypermarkets, starting with the unit set to open after Christmas in Garland, Tex., outside Dallas.

Closing Auto Service

In sharp contrast, K mart opened 36 new stores this year, and declined to install auto service bays in any of them. Moreover, over the past 18 months, K mart has closed an estimated 75 auto service centers to make more room for apparel.

Consequently, the proportion of K marts that offer auto service is steadily declining.

Out of some 2,203 stores, only an estimated 1,400 stores operate auto service bays.

That compares with around 1,900 auto service centers four years ago. That was before K mart closed about 300 marginal or money-losing centers in one fell swoop. Since then, auto service managers have had to convince headquarters that their operations could produce better margins than could soft goods. Many have lost that argument.

Last December, Wayne Sales, divisional merchandise manager for auto accessories and service, spelled out K mart's policy regarding existing service centers: "We will constantly evaluate every service center and make a business decision as to how successful we are."

In a typical closure in the Dolton, Ill., store last December, K mart knocked out a wall and put sporting goods in the space that the service bays once occupied. Then it expanded apparel into the square footage that sporting goods once held.

As another indicator of the de-emphasis of automotive service, K mart last February abolished K mart Enterprises, eliminating a vice presidency and its staff. That was a subsidiary established in 1965 to assume operation of what used to be leased departments in sporting goods and automobiles.

In addition, K mart over the past two years eliminated five auto service managers at the regional office level and 20

district automotive managers, a former K mart auto service executive said.

The only part of K mart Enterprises that remains is the merchandising group under direction of dmm Sales, said Maxwell Parsons, who retired as vice president in April 1986.

Parsons said K mart declined to fill his position after he retired and then abolished the Enterprises subsidiary.

"I understand they have closed a number of auto service centers," Parsons said, "but I don't know how many."

K mart declined to reveal how many automotive centers it has closed.

The closings include at least five in the Chicago area, (Continued on page 161)



This K mart auto service center in Memphis, Tenn., may become an anomaly for the chain. The proportion of K mart stores offering auto service has been steadily declining. (DSN photo)

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K MART/WAL-MART/TARGET

HARD LINES: AUTOMOTIVES



Unlike K mart, Wal-Mart has been expanding the number of its discount stores that offer automotive service, especially in larger urban locations. (DSN photo)

Wal-Mart Expands Auto Service as K mart Thrusts Toward Soft Goods

(Continued from page 160) where Venture closed all 20 of its Chicago-area service centers in August.

A Chicago store manager for a mass merchandiser that is expanding auto service said he has interviewed a number of K mart employees for mechanic and service manager jobs and his headquarters had interviewed a couple of K mart auto service people for executive positions.

"They're cutting back," the store manager said, requesting to remain nameless. "The auto service program [at K mart] is in turmoil," the manager said he was told by

the K mart employees he interviewed. "It's getting harder and harder to get the job done. The people aren't there because of payroll cutbacks."

"There is a lot of apprehension because of the thrust towards soft lines," said the former K mart auto service executive. Also requesting anonymity, he attributed the cutbacks to Joseph Antonini. Before taking over as chairman and chief executive officer of K mart Corp., Antonini was influencing the direction of auto service while he was president of K mart Apparel and heir apparent of Bernard Fauber, said the executive.

As another indicator of soft lines ascendancy over auto service, Gus Giotis previously was a soft lines merchandiser before being appointed director of auto service in 1983, the former executive said. "I left when I saw the handwriting on the wall," he said.

He estimated that K mart takes in close to \$500 million a year in auto service revenues.

K mart's cutbacks make sense, said Richard A. Vinet, a Langhorne, Pa., consultant to the auto service industry, because of problems with training mechanics, high costs of equipping service bays and slow turns in installed parts.

Capital investment for a six-bay auto service center runs about \$250,000, Vinet said. To make a reasonable profit, such a center has to garner \$720,000 a year in revenues, and profit margins would range from 5 percent to 10 percent, after labor costs.

Labor: A Major Problem

Labor is the major problem facing the service industry, Vinet said. Because of the growing complexity of modern cars, mechanics need constant, and costly, retraining. A certified class A auto technician expects to make \$30,000 to \$40,000 a year, Vinet said. "K mart can hire an apparel clerk for minimum wage," he said. Discount chains often hire entry-level auto service workers at \$7 an hour, he said.

Emphasizing the scope of the training problem, Vinet said that Sun Oil Company is gearing up to train (or retrain) all 4,000 mechanics for its 2,000 Sunoco stations. "The auto service industry requires total retooling," he said.

Because of the proliferation of auto makes and required parts, turns for installed automotive parts run a low four, the service consultant said.

Moreover, if a discounter's auto service department fails to deliver the same level of cleanliness, courtesy and attentiveness that customers find in the rest of the store, the chain stands a good chance of losing not only their customers' auto service business but also their hardware and apparel purchases, Vinet said.

Nonetheless, money can be made in auto service, said Marty Butler, head of Distributors Institute, Chicago. The average age of cars on the road in 1986 was 7.55 years, compared to 5.55 in 1970, he said.

Goodyear, Firestone and auto parts chains such as Pep Boys are slugging it out for general repair business, Butler said. (Pep Boys operates two auto mechanic training centers, one on the East Coast and one on the West Coast.)

It's a question, however, whether people are going to go to a Wal-Mart or a K mart for major repairs, Butler said.

But most important, "I'd be looking at the availability of mechanics if I were in K mart's shoes," he said. "They can train an apparel clerk easier than a mechanic."

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K MART/WAL-MART/TARGET**HARD LINES: AUTOMOTIVES**

Wal-Mart Sharpest on Auto Prices; K mart Has Wider Product Selection

(Continued from page 159)
adding that "Apparently, it has felt Wal-Mart's heat."

The Big Two differ in that consistently lower price is more important than variety for Wal-Mart, whereas K mart opts for offering a larger variety and allows prices to float from market to market, he said.

Price is Important

"Price is extremely important to Wal-Mart," he said. Accordingly, Wal-Mart concentrates on two or three volume leaders in waxes, for example, in following its low-price strategy, while K mart might offer six or seven wax items.

"The leader, and K mart is still the leader, can sometimes get away with charging a premium price," he said.

DSN market basket surveys of four markets—in which the two regional chains, Wal-Mart, geared toward Small Town America, and Target, concentrating on metropolitan areas, compete with K mart, the national chain—shows that Wal-Mart has installed itself as the low-price leader in automobiles.

In contrast, K mart and Target appear to have conceded the low-price ground to Wal-Mart and compete on price with one another.

Consistent Price Policy

Another trend to emerge from the research is that Wal-Mart follows a consistent price policy among different markets, while K mart store managers have the flexibility to vary their prices widely, in accordance with local market conditions.

For example, Wal-Mart charges the same \$2.57 for a Fram PH8A oil filter in Austin, Tex., Memphis, Tenn., St. Louis and Wichita, Kan.

In sharp contrast, K mart charges \$3.19 for the same filter in Austin, \$2.99 in St. Louis, \$2.79 in Memphis, and \$2.57 in Wichita.

Target charges \$2.79 in three of the four and matches K mart in Austin at \$3.19.

Another example: for the 14-ounce size Turtle Super Hard Shell Paste Wax, Wal-Mart charges \$2.97 in all four markets surveyed.

K mart matches the \$2.97 price in Austin and Wichita, but charges \$3.39 in St. Louis and \$3.97 in Memphis.

Turtle Wax at Target ranges from \$2.99 in Wichita and Memphis, to \$3.39 in St.

Louis and \$3.99 in Austin.

K mart makes no secret of its varying price policy. Its circulars note, "Regular Prices May Vary in Some Stores Due to Local Competition."

Neither K mart nor Target offers sharper overall prices in automobiles, said the senior buyer for the major automotive parts chain.

Despite its reduced presence in automobiles, Target comes off well in consumer surveys conducted for DSN by Leo J. Shapiro & Associates, the Chicago-based research firm.

Wal-Mart follows a consistent price policy among different markets, while K mart managers can vary their prices widely in accordance with local market conditions.

In a survey of consumers who shopped the Big Three discounters primarily for non-apparel goods over the past 12 months, 11.6 percent of Target customers said they mainly shopped its automotive department. That compares with 12.4 percent of K mart non-clothing shoppers and 9.8 percent of Wal-Mart's.

In comparing shopping patterns in various size markets, the research shows that Target comes out on top in small metropolitan markets of 50,000 to 1 million.

Asked what they mainly spent money on at the store in the past year, 20 percent of Target shoppers in small metropolitan markets said automobiles. That figure compares with 15.2 percent at Wal-Mart and 13.3 percent at K mart. Moreover, that suggests that shoppers in small metropolitan markets of all the Big Three discounters rely more heavily on the discount stores for automotive supplies than do shoppers in either large metropolitan markets of more than 1 million in population or non-metropolitan, rural markets.

In large metro markets, 6.4 percent of Target shoppers said they mainly spent money on auto supplies, compared to 9.8 percent of K mart shop-

pers and 3.3 percent of Wal-Mart shoppers.

In non-metro markets—Wal-Mart's stronghold—8 percent of shoppers said they spent money mainly on automobiles. K mart followed closely at 7.8 percent, while Target trailed at 5 percent.

In terms of customer satisfaction, automotive shoppers rated Target higher when they had a chance to compare it with K mart and Wal-Mart than when Target had the field to itself.

In markets without competition from the other two discounters, Target shoppers gave the store a rating of 6.21 on a scale of 1 to 9, with 9 representing "outstanding."

When Target faced K mart in the same market, its shoppers boosted their opinion of Target to 6.65. When Target squared off against Wal-Mart only, its shoppers rated it 6.70 on the customer satisfaction scale.

Faced with competition from both K mart and Wal-Mart, Target's overall customer satisfaction score came in at 6.54.

On the contrary, K mart's customer satisfaction rating fell when its shoppers had a chance to see it in action against either one or both of the other major discounters.

Where it had the market to itself, K mart's automotive department got a satisfaction rating from its shoppers of 6.79. That fell to 6.63 when it competed in a market with Wal-Mart only; 6.44 when it fought with Target only; and 5.98 when it tangled with both Wal-Mart and Target.

Accordingly, Wal-Mart shoppers increased their customer satisfaction score to 7.12 when they could compare it with a K mart only, up from 6.98 when Wal-Mart had the market to itself.

But when it competed with a Target only, Wal-Mart shoppers reduced their customer satisfaction rating to 6.37. When Wal-Mart faced off against both of the other two, its composite customer satisfaction rating was 5.84, the survey showed.

Results for the automotive department prove the exception for Wal-Mart. Overall, Wal-Mart shoppers have a higher opinion of the merchandise, in comparison with either Target or K mart, express more confidence at finding what they want and regard store employees as friendlier and more helpful.

MARKET BASKET: Automotives

Prices on selected automotive products sold at all three chains

Market	K mart	Wal-Mart	Target
Fram oil filter, PH8A			
Austin, Tex.	\$3.19	\$2.57	\$3.19
Memphis, Tenn.	2.79	2.57	2.79
St. Louis, Mo.	2.99	2.57	2.79
Wichita, Kan.	2.57	2.57	2.79
Armor All, 16-oz.			
Austin	4.49	4.47	4.49
Memphis	4.47	4.47	4.49
St. Louis	4.99	4.47	4.99
Wichita	4.49	4.47	4.49
Turtle Super Hard Shell paste, 14-oz.			
Austin	2.97	2.97	3.99
Memphis	3.97	2.97	2.99
St. Louis	3.39	2.97	3.39
Wichita	2.97	2.97	2.99
Borden Rain Dance paste, 14-oz.			
Austin	5.69	5.64	5.64
Memphis	6.97	5.64	5.49
St. Louis	5.49	5.49	5.69
Wichita	5.64	5.64	5.69
Gumout Jet Spray, 13-oz.			
Austin	1.97	1.64	1.64
St. Louis	1.69	N	1.64
Wichita	1.64	1.64	1.69
AC-Delco spark plugs, R45TS-8B			
Austin	9.92	9.84	9.99
Memphis	9.52	9.84	9.99
Wichita	9.28 ¹	9.28 ¹	9.99 ¹
Quaker State Deluxe motor oil 10W40, 1-qt.			
Austin	0.99	0.98	1.14
Memphis	0.98	0.98	0.99
St. Louis	0.99	0.98	0.99
Wichita	0.97	N	0.99
Pennzoil Multi-Vis motor oil 10W30, 1-qt.			
Austin	0.99	0.98	1.02
Memphis	0.98	0.98	0.99
St. Louis	0.94	0.93	N
Wichita	0.97	0.97	0.99
Champion spark plugs, RNI IYC4			
Austin	4.96	4.92	4.99
St. Louis	4.48	4.92	N
Wichita	4.64	4.64	4.99
STP oil treatment, 15-oz.			
Austin	1.39	1.38	1.39
Memphis	1.77	1.07	1.38
St. Louis	1.36	1.38	1.39
Wichita	1.39	1.38	1.39
WD-40 aerosol, 12-oz.			
Austin	1.87	1.64	N
Memphis	1.88	1.64	1.64
St. Louis	1.54	1.64	1.89
Wichita	1.68	N	1.79
Ford Motorcraft oil filter, FL400A			
Austin	2.99	2.83	2.99
Memphis	3.39	2.93	2.99
St. Louis	2.99	2.93	2.99
Wichita	2.77	2.78	2.79
Texaco Havoline motor oil, 10W40, 1-qt.			
Austin	0.99	0.78	0.78
Memphis	0.98	0.78	0.68
St. Louis	0.99	0.78	0.78
Wichita	0.77	0.78	0.78

¹No. R448-8B

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research

K mart Tests Plastic Pallets for Bulk Aisle Auto Displays

In a merchandising development, K mart has tested plastic pallets for bulk aisle displays, such as oils and antifreeze, instead of wooden flats and is taking a close look at using them chainwide.

Ken Reed, sales and marketing director for Menasha Corp., the Watertown, Wis.-based supplier of the K mart test pallets, said that goods

stacked on plastic pallets can be wheeled straight from the loading dock to the sales floor and still present a finished, attractive display, compared to wooden pallets.

The molded polyethylene pallets can be color coded to match store colors, such as orange for Zayre, said Don Karo, marketing director for another vendor, Armin Ther-

modynamics, Broken Arrow, Okla.

At its new store outside Harrisburg, Pa., Zayre is using Armin plastic pallets to display motor oil and antifreeze in the racetrack aisle along automotive gondolas.

Even though plastic pallets cost \$25 to \$35, against \$6 to \$10 for wood, they last indefinitely. The plastic pallets also

represent a capital investment, rather than a consumable cost, said Reed, from Menasha.

Reed's firm has been unable to get Wal-Mart interested, but other discount chains using plastic pallets include Bradlees, Caldor, Clover, Fisher's Big Wheel, Jamesway, Rose's Stores, Venture, and Zayre.

"Target doesn't like to clutter up its center aisles with displays," said spokesman George Hite. But it makes an exception for cases of motor oils and antifreeze, which it displays on flats. Hite declined to comment on whether Target is considering switching to plastic pallets from wood flats for these bulk displays.

Aggressive Toy Promotions Push Target Ahead

Target's ability to pull in customers from all types of markets through its aggressive toy promotions gives it an edge over K mart and Wal-Mart in this category, said industry sources.

Target is called the "promotional horse" in the toy industry. Its aggressive promotional efforts in toys are noted quite often as one of the chain's major strengths.

Target differs from the other two discount giants in the way it buys and stocks toy departments to meet its customers' needs.

Core of Basics

Wal-Mart and K mart try to be consistent by stocking a core of good solid basic items with price points, theme and variety to appeal to the day-in, day-out customer. Then in the fourth quarter, both add a limited selection of good volume toys such as television-promoted toys and licensed products to their basic assortment.

Target, on the other hand, goes after the upscale customer by changing its toy assortment dramatically in spring and in fall with two totally different planograms for those time periods. It expands a great deal in the fall with higher price point sku's and develops a strong endcap program for the Christmas season. It offers seasonally a wider variety of sku's to the consumer than K mart and Wal-Mart.

While Target may not actually always have the lowest prices on all toys sold when compared to Wal-Mart and K mart, it has the uncanny skill to convince customers through its advertising that without a doubt it has the dirt bottom prices.

And, promotion is the nature of the toy business, especially with the highly-advertised toys that all three chains carry. Other more basic toys leave room for more margin for retailers.

Target pushes promotional toys more than the other two discounters. During this Christmas season, it has endcaps filled with such promotional toys as the Fisher-Price Fun with Food series, Hasbro's Pogo Bal and Coleco's talking Alf doll. Endcaps at K mart and Wal-Mart include more basic toys such as the popular board game Pictionary and Lego building sets.

DSN research found Target to have the lowest price on selected toys in selected markets about half of the time. Other times, the chain was



This new Piqua, Ohio, K mart sports a stronger statement in toys than is typically found in many of the chain's older stores.

beat by either one or both of the other two discount giants.

For example, in a recent price comparison study between the three chains, Target had the lowest price on Worlds of Wonder Lazer Tag game set in both Memphis, Tenn., and Wichita, Kan., and was only slightly higher than Wal-Mart in the Austin, Tex., market.

In Wichita, Target was lowest in price on other promotional toys such as Ideal's talking Big Bird (\$54.99 at Target, \$59.76 at Wal-Mart and \$69.94 at K mart) and on a basic toy, Fisher-Price Little People/Little Mart (\$11.99 at Target, \$13.94 at Wal-Mart, \$13.96 at K mart).

However, in other instances, the chain had the highest price on both promotional and basic products. Target had the highest price in four markets on the Hasbro's Pogo Bal and the highest price in two markets on the Fisher-Price Farm Set.

Still, Target customers buy more toys in than customers of the other two chains.

According to consumer research conducted for DSN by Leo J. Shapiro & Associates,

Chicago, a higher percentage of Target customers said they went to that store mainly to buy toys, than did customers of K mart or Wal-Mart.

And surprisingly, Target led by a wide margin in non-metro rural markets, where Wal-Mart is usually more dominant.

Since few Target stores are located in such areas, this research finding probably indicates that many non-metro area consumers are driving to

the city to buy toys at Target, rather than going to the closer Wal-Mart.

However, while Target customers may say they spent more money on toys than many other categories in the store, Wal-Mart's toy department received a higher customer approval rating.

The research further showed that Wal-Mart's toy department is rated stronger when it is alone in a market than when it shares a market

with a K mart or Target store.

On the other hand, Target customers gave the chain's toy department higher marks when they live in markets that also contain K mart or Wal-Mart stores than when Target is not competing against one of the other big discounters.

K mart's toy department was rated similarly regardless of the degree of competition in the market.

All three chains seemed

(Continued on page 167)



While Target is clearly the leader in merchandising highly promotional toys, the upscale discounter also does a strong job with basic items like board games, shown here in Bridgeton, Mo. (DSN photos)

Target's Toy Push Attracts Shoppers

Percent of shoppers who mainly spent their money on toys at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	3.8%	3.4%	4.7%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	5.4	6.7	10.5
In Non-Metro Areas (Rural)	3.4	4.1	11.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

Aggressive Toy Promotions Push Target Ahead

(Continued from page 165) equally stocked on more basic toys such as board games and preschool items, which could be a result of the popularity of basics toys outweighing promotional toys this year.

Target has the largest toy department in terms of floor space, followed by Wal-Mart and then K mart, which seems to have the smallest toy department of the three chains.

In bicycles, Wal-Mart upgraded its display two years ago to a display rack that carries up to 30 bicycles per store. Target, in contrast, typically carries 40 to 50 bicycles on

floor racks as well as hanging from the ceiling.

All three chains seem about equal in price points and selection on the lower end of bicycles, starting at \$49 to \$59. Target and K mart have higher price points of up to \$200 while the highest priced bicycle at Wal-Mart is just a little over \$100.

While Wal-Mart and K mart generate more sales in bicycles due to store size, Target's aggressive promotional efforts enable the chain to sell more bikes on ad than on ad at K mart or at Wal-Mart with everyday low pricing.



Wal-Mart is the store to shop for toys when located in a market with little competition. But, the small town chain's edge vanishes when up against either of the other two major discounters. (DSN photo)

MARKET BASKET: Toys

Prices on selected toys sold at all three chains

Market	K mart	Wal-Mart	Target
Sorry board game			
Austin, Tex.	N	\$ 10.44	\$ 7.99
Memphis, Tenn.	\$ 8.53	8.96	9.99
St. Louis, Mo.	9.94	10.48	10.49
Wichita, Kan.	9.94	7.98	10.49
Scrabble board game			
Austin	7.97	8.73	7.99
Memphis	7.88	8.63	7.69
St. Louis	8.67	8.53	6.99
Wichita	7.86	8.63	7.99
Monopoly board game			
Austin	N	8.53	7.49
Memphis	8.96	8.53	8.79
St. Louis	N	8.63	6.99
Wichita	6.88	8.53	6.89
Nintendo video game system			
Memphis	139.00	138.74	139.99
Wichita	139.00	138.74	139.99
Hasbro Pogo Bal			
Austin	N	12.97	14.99
Memphis	14.97	12.97	14.99
St. Louis	N	12.97	14.99
Wichita	N	12.97	12.99
G.I. Joe Persuader tank set			
Austin	9.77	8.93	9.99
Wichita	9.97	8.93	9.99
Fisher-Price farm set			
Memphis	19.96	14.94	21.96
St. Louis	19.97	18.94	21.99
Worlds of Wonder Lazer Tag game set			
Austin	47.99	39.78	39.97
Memphis	47.77	37.77	36.36
Wichita	43.77	43.78	39.97
Yahtzee dice game			
Austin	3.97	4.44	4.99
Memphis	3.93	3.93	4.99
St. Louis	5.47	4.44	4.99
Wichita	4.96	4.44	4.99
Candyland board game			
Memphis	4.88	6.58	5.84
St. Louis	6.69	6.58	9.99
Wichita	5.19	4.98	4.99
Alf doll (non-talking)			
Austin	29.94	24.97	24.99
Wichita	22.97	24.92	24.99
Teddy Ruxpin talking toy			
Austin	N	49.72	46.99
St. Louis	49.94	46.94	N
Wichita	N	49.72	49.99
Ideal Big Bird talking doll			
Austin	69.94	59.76	N
St. Louis	69.94	N	54.99
Wichita	69.94	59.76	54.99
Coleco Cabbage Patch Kid			
St. Louis	N	18.96	18.79
Wichita	24.97	18.96	18.99

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research



ROSES STORES
HENDERSON, N.C. 27536

To: Our Manufacturers and Suppliers

Statement of Policy Concerning Gifts

The holiday season is a happy time when custom suggests we share gifts and remembrances with friends and associates. The joy and good will of the holiday spirit brings us all a little closer together, and for that we are thankful.

However, any Roses associate who accepts a gift or gratuity from a supplier or vendor during any season violates Roses policies and procedures. Please save us both embarrassment by not sending any Roses associate gifts this holiday season; Regardless of the intent the gift cannot be accepted and will have to be returned.

If you feel the spirit of the season compels you to do something, we suggest that you make a charitable donation to your favorite charity in the name of your friend.

Thank you for your understanding and compliance.

Best wishes for a happy holiday season and a prosperous New Year.

John B. Smith
President

Wal-Mart Challenges for K mart's L&G Lead

Despite its record for innovation, such as pioneering full-line lawn and garden centers, K mart has fallen behind Johnny-come-lately Wal-Mart in terms of merchandising.

At least that appears to be the consensus among consultants, vendors and garden center competitors.

Some even give Target, which withdrew from the garden center fray in the 1970's, better marks than K mart for merchandising its remaining lawn and garden lines.

What makes it difficult to achieve uniform results around the country is the regionalized nature of garden center operations. Of K mart's more than 2,200 stores, about 2,000 operate garden centers, year-round in the Sunbelt and seasonally elsewhere.

Buying is split regionally in attempts to meet regional needs. Regional managers—and even store managers—get a degree of autonomy that is unheard of in other store departments.

Difficulties in Geography

At an industry conference in May, Joe Hatfield, senior vice president, general merchandise manager for Wal-Mart, indicated the difficulties that geography presents for garden center operators. "We're in Minnesota to Florida and have to become very specialized in what we carry for each market."

Store results for lawn and garden vary radically, compared to other departments, said a consultant to the garden industry, who asked to remain nameless. "I've seen some very good K marts and Wal-Marts, and I've seen some rotten ones."

The stores that do the best are ones that have managers who are committed to the department or managers who take a personal interest in gardening, he said.

Among discounters, K mart pioneered in establishing full-line L&G departments and such innovations as developing a private label program for L&G, promoting UPC bar coded tags for green

goods, testing trained horticulturists as department managers and experimenting with shipping live plants in pallet-sized cartons to reduce damage and shipping costs.

Target was the second discounter to start full-line L&G departments but scrapped them in the 70's in favor of its push for soft lines. In most of its 318 stores, Target devotes only limited space to a narrow line of hand and power tools, chemicals, fertilizers, potting soils, pots, patio furniture and gas grills. With the exception of 80 stores in California and Arizona, no Target stores carry woody green goods, (trees and shrubs), but some do stock bedding plants, such as in Milwaukee, and indoor house plants, such as in Dallas.

Among discounters, K mart pioneered in establishing full-line L&G departments.

In a Target stronghold, California—where discounters simply have to get into gardening—it does very well with full-line L&G departments, said a California store manager. When Target took over about 50 Gemco stores, it increased L&G space by about 30 percent, he said.

At the new Target store in Sacramento, an outdoor garden area, about 30 feet wide, roofed and fenced in, runs the depth of the building. Its indoor L&G section, close to the front entrance, includes a display of healthy-looking house plants. A Los Angeles Target during the week of Nov. 9 was holding a tree and shrub clearance sale to make room for live Christmas trees.

Dr. Chuck Greenidge, owner of Greenidge & Associates, an Evergreen, Colo.-based consulting firm to the gardening industry, said "Talk is that it is planning to expand. Growers are looking for Target growth."

In terms of L&G space and dollar volume, Wal-Mart still is the one doing the catching up to K mart.

In its annual survey of green goods volume, the trade publication, *Nursery Business Retailer*, estimated that K mart took in \$700 million in revenues (including fertilizers and chemicals, but excluding power and hand tools) in 1986, when it operated 2,180 stores.

For the survey, Wal-Mart reported 1986 L&G volume of \$295.5 million from 980 stores, said *Nursery Business* publisher Dick Morey. Because of its limited involvement with green goods, Target wasn't included in the survey, Morey said, but he added that Target is "getting big in California."

Discounters have thrown down a challenge to independent garden centers, said Ian Baldwin, owner of Nursery Business consultants, Elk Grove, Calif. "They sell to people who don't go to garden centers. They have tapped only a small part of a huge potential market," Baldwin said.

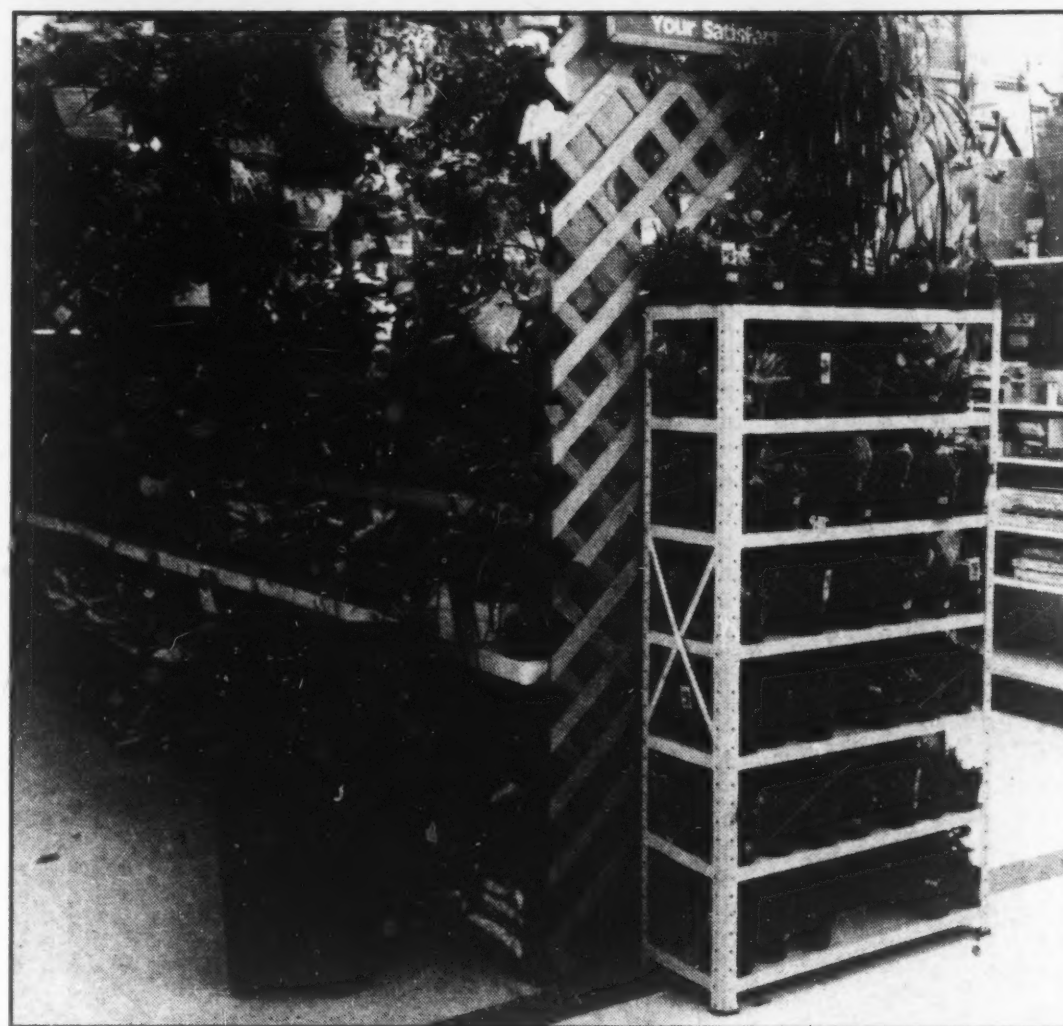
In its 1986-87 National Gardening Survey, the National Gardening Association determined that 22 million, 32 percent, of 69 million gardening households shopped at a mass merchandiser or discount store last year, each spending an average of \$261.

A Leo J. Shapiro and Associates consumer survey conducted for DSN this fall reflects the differing L&G emphasis of the Big Three.

Of those who shopped at a Target over the past year, 5.1 percent said they went there mainly to buy garden supplies. In sharp contrast, 10.6 percent of K mart shoppers said they mainly spent their money there on L&G supplies. Of Wal-Mart customers, the Shapiro survey found that 8.6 percent mainly shopped there for garden supplies.

In terms of customer satisfaction with the L&G department, K mart also ranked first, with a rating of 6.86 on a scale of 1 to 9, with nine equaling "outstanding." Wal-Mart's score on L&G customer satisfaction was 6.45, while Target trailed with a rating of 6.24.

Initially, K mart was the dominant factor in L&G, said Greenidge. Its private label K-Gro products are second in volume only to Ortho products



Wal-Mart is an 'excellent merchandiser' of container plants, which are usually good-looking and well-cared for.

K mart Attacks Leadership In Lawn & Garden Area

Percent of shoppers who mainly spent their money on garden supplies at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	9.1%	9.1%	4.7%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	11.5	4.8	6.1
In Non-Metro Areas (Rural)	11.3	11.2	4.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

in the country, he said. K mart devotes space both indoors and outdoors to L&G, Greenidge said.

In comparison, Wal-Mart stores have no permanent outdoor space dedicated to garden centers, Greenidge said. Instead, it uses "free space" in the parking lots of more than 500 stores to set up plastic-covered greenhouses in front of stores in early spring. Sunshading burlap goes up as the sun gets hotter.

The innovation creates "a professional nursery image," Greenidge said. Greenhouses not only extend the season but also lend a degree of credibility, he said, adding "It makes it look to customers as if Wal-

Mart grows its own stock."

On the contrary, Wal-Mart grows none and buys nursery stock from the same regional growers that supply K mart and Target, Greenidge said. All Wal-Marts once had the greenhouses, but the chain had to pull back in high-wind areas. Neither Target nor K mart uses greenhouses.

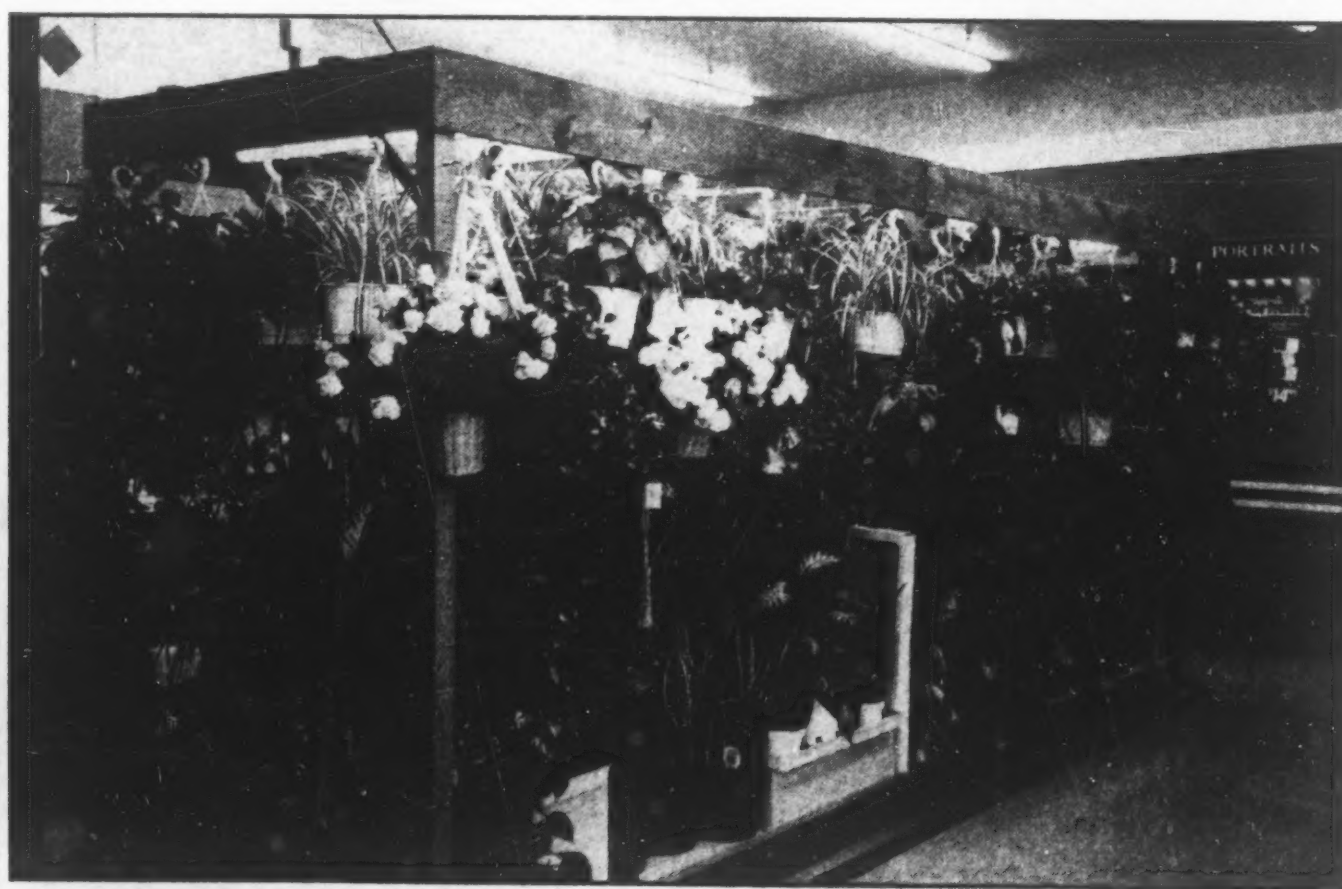
For chemicals, fertilizers and bagged goods, such as peat moss, Wal-Mart emphasizes brand names over private label goods, the consultant said.

In terms of sales per square foot and gross profits, L&G runs between third and fifth for Wal-Mart of all depart-

(Continued on page 170)



While not emphasized by the chain as much elsewhere, lawn & garden departments were increased by about 30 percent in floor space when Target reopened former Gemco stores in California.



K mart is the acknowledged pioneer of full-line lawn & garden centers among discount store chains.

(DSN photos)

HARD LINES: LAWN & GARDEN

K MART/WAL-MART/TARGET

K mart Pioneers in Establishing Full-Line L&G Departments

(Continued from page 169)
ments, Greenidge said. "I assume K mart gets similar results because of the emphasis it puts on the department."

L&G can be an extremely profitable seasonal department because most goods can be merchandised outside in free space and turnover is high, he said, adding that discounters are moving up in plant size and price points.

Depending on the species, woody plants in one-gallon pots discount for \$2.95 to

\$7.95, Greenidge said. By moving up to two-gallon sizes—still a carry-home size—discounters can bump their price points up to \$7.99 to \$19.95.

To improve store results, Wal-Mart has asked a major supplier to put together a training program to improve department managers' knowledge of plants and plant care, said a gardening consultant. It is still in the development stage but will include training manuals, videotapes and on-

the-job training sessions, he said. "The program demonstrates Wal-Mart's commitment to garden centers."

In a "real step forward," K mart has hired trained horticulturists to manage the garden centers in about 10 stores, Greenidge said. Judging from the complaints of competitors, the test is a success. Instead of offering 100 percent self-service, those stores can offer advice and gardening expertise, Greenidge said.

K mart also is leading the

way in getting growers to tag their plants with scannable, bar coded tags, with Wal-Mart following.

K mart also is leading the way with tests of shipping live plants boxed on shrink-wrapped pallets, said one of its major suppliers. Such boxing reduces plant damage, said the supplier, who asked to remain nameless.

In addition, the boxing also reduces handling costs and labor, the grower said. "Instead of unloading gallon-size plants

by hand, two at a time, the driver can unload his truck with a forklift."

To promote its garden centers, K mart retains Jerry Baker, a Troy, Mich.-based author of gardening books. This summer, Baker was host of a call-in gardening TV show broadcast in the Tampa Bay area, but the show folded after about six weeks, said Morey, of *Nursery Business*.

In Dallas, a garden center owner who competes with both K mart and Target said K mart is a factor in the market because of low pricing. But in a common comment, he down-graded K mart for the poor quality of its plant care. "They're working on it nationally," he added. Varietal selection also is weak, he said. In Dallas, K mart operates its garden center on a seasonal basis and is pretty much out of it by June, he said.

Showing regional variations, a K mart circular for Southeastern stores was advertising green goods, such as privet hedge and junipers for its Labor Day sale.

K mart is leading the way in getting growers to tag plants with bar coded tags.

An owner of a 59-store garden center chain based in Iowa also criticized K mart for poor plant care. The owner said that at several K mart stores this spring he saw frost-bitten and wind-burned nursery stock. "They were terrible plants," he said. "They should have been dumped."

The owner said Wal-Mart, in comparison, is an "excellent merchandiser." Container plants are good-looking and well-cared for, he said.

A supplier of gardening tools also gave Wal-Mart the merchandising edge. "Wal-Mart promotes the popular, traffic items for those shopping price." But those customers also "step up a lot," he added, and buy associated items that Wal-Mart carries.

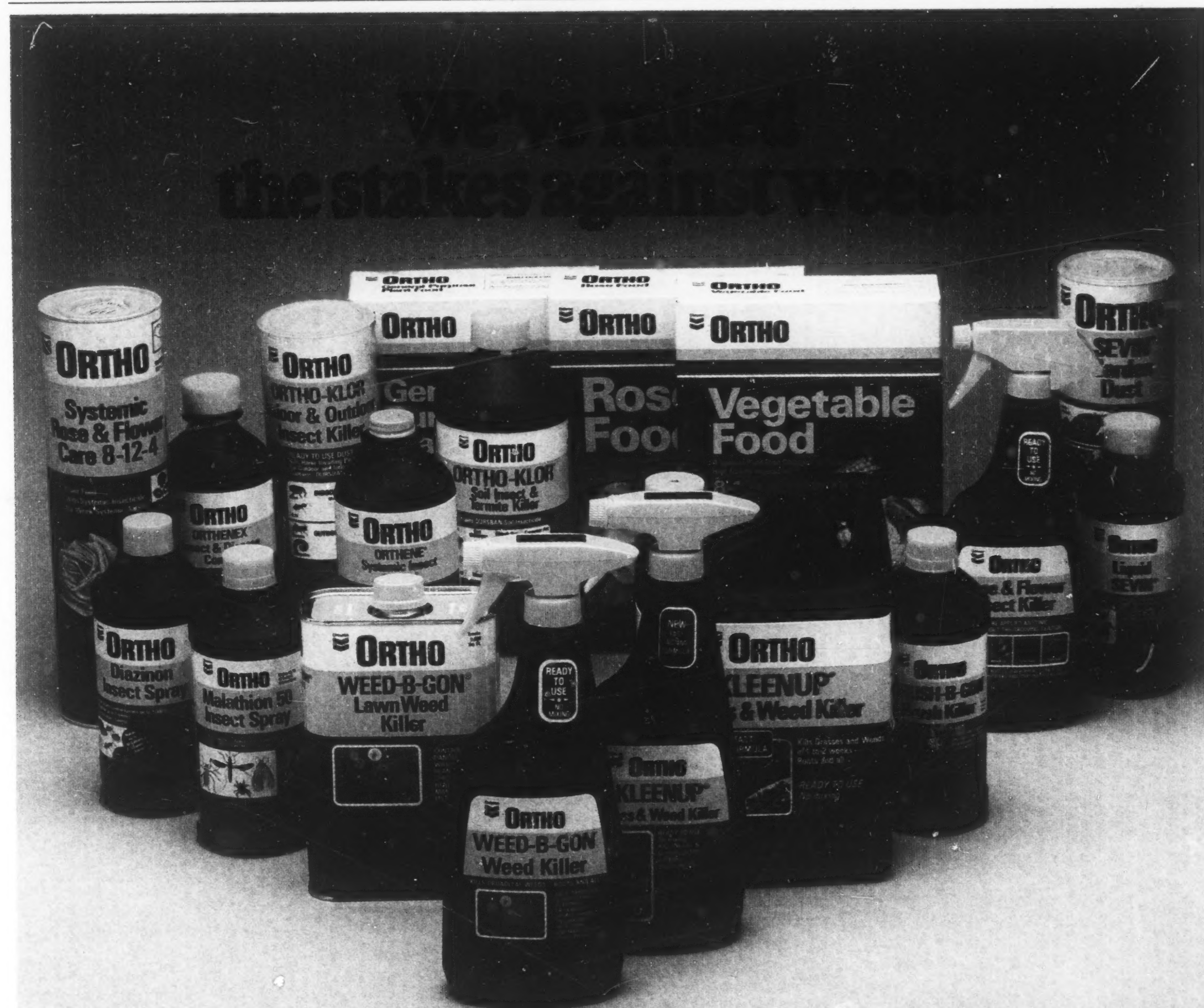
In comparison, K mart carries a more limited selection and is more shallow in its merchandising. "Customers often buy the loss leaders and leave," the vendor said.

Wal-Mart also scores better on point of purchase merchandising than K mart with a major power equipment supplier of three chains.

Wal-Mart does a better job of putting products on display, displaying them attractively, and keeping backup product at hand where customers can reach it, he said.

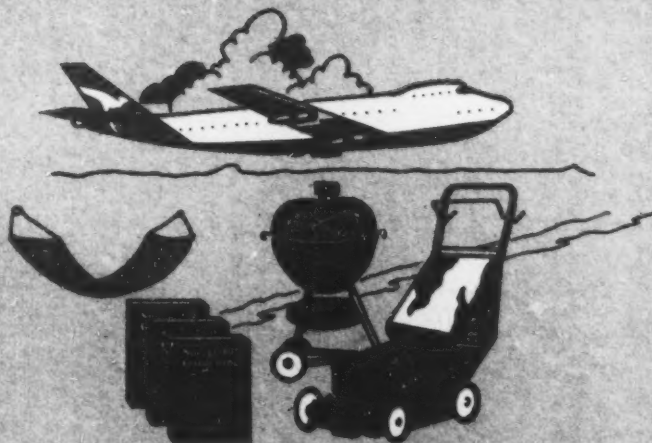
"Every K mart is a new experience," he said, because stores lack continuity. K mart has a worse out-of-stock problem than either Wal-Mart or Target, he said.

Even though Target might carry only one sku of an item compared to, say, three at K mart, Target does a better job of merchandising, he said.



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K mart Takes Aggressive Lead in Hardware

When it comes to making a purchase at K mart, Wal-Mart and Target, not many shoppers put hardware at the top of their list.

In fact, when shoppers were asked what they mainly spent their money on when they shop at these three retailers, hardware ranked rather low compared to other product categories, especially if customers bought apparel on the same trip, according to a survey conducted for DSN by Leo J. Shapiro and Associates, Chicago.

Out of 15 merchandise categories, only K mart's hardware department finished in the top half, the study found.

With gross margins in hardware of about 40 percent, these retailers, like other discounters, are losing out on some substantial sales, sacrificed to the higher-margin yield of soft lines.

For example, market research conducted by security products manufacturer, Schlage, San Francisco, found that discount stores have the same high traffic level of home centers, yet reap only 10 percent of the available hardware sales, vs. 40 percent at home centers and 30 percent at hardware stores.

Untapped Potential

It is an "untapped potential," observed Greg Markes, consumer electronics products manager for Schlage, but one he anticipates will not go unanswered for long.

A number of hardware manufacturers contacted by DSN, observed that all three discounters are getting much more aggressive in this area than in previous years, especially K mart.

And, K mart shoppers have noticed the change, ranking its hardware department sixth of 15 merchandise categories, behind apparel, housewares, health & beauty aids, garden supplies and automobiles, the Shapiro study found. If shoppers went to K mart to buy apparel, however, only 3.4 percent bought hardware. But if they did not stop by specifically for apparel, hardware was purchased 7.6 percent of the time.

Hardware ranked eighth among Target shoppers as the product category in which they mainly spent their money during the past year, behind apparel, housewares, H&BA, auto supplies, stationery, toys and garden supplies. Six percent said they bought hardware if they didn't go to the store mainly for apparel, but bought hardware items only 1.7 percent of the time if they did go to Target for apparel.

Wal-Mart shoppers ranked hardware 10th, ahead of home soft goods like towels, linens and draperies, crafts, infant supplies, electronics and shoes. Only 4.6 percent of Wal-Mart shoppers bought hardware when in the store to make purchases other than apparel. If they went to Wal-Mart just to buy apparel, only



K mart is well ahead of most discount chains in developing a strong presence in the hardware and home improvement categories.

2.7 percent bought hardware.

K mart has been leading the other two chains in developing a stronger hardware presence through the development of its home care centers.

This department, developed four years ago with the assistance of K mart's Builders Square home improvement division, merged hardware, paint, electricals, plumbing and assorted hard lines products—including building materials—under one banner to help create a "destination department," explained Roy Jones, buyer in charge of home care center projects at K mart.

The department runs its own advertising circulars twice a month, on Sunday or Wednesday, plus ROP ads on alternate weeks from the circulars.

K mart is doing this not only to attract customers already in the stores, but also to draw new crowds. K mart has about 350 home care centers,

42 of which are "expanded" home care centers, the thrust of the company's expansion program in this category.

The expanded home care center features a wide assortment of home improvement products, about 1,200 stock keeping units, merchandised on 8-foot warehouse racks in 15,000 square feet of floor space. The department features some building materials, including dimensional lumber, an expanded line of kitchen cabinets and bathroom vanities, in addition to hardware, power tools, paint, electrical and plumbing products.

Stores converted to this program can expect to chart sales increases of between 25 percent and 30 percent, Jones said.

In 1988, K mart will add about 50 more of these departments, and Jones visualizes a time when home care centers are installed in about half the K mart stores. They won't ever be in all K mart stores

K mart Excels in Hardware

Percent of shoppers who mainly spent their money on hardware/tools at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	6.6%	5.1%	4.3%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	8.0	3.6	4.1
In Non-Metro Areas (Rural)	3.3	3.8	4.9

Source: Leo J. Shapiro & Associates/DSN, December 1987

because not every neighborhood is suitable for them, he said, noting that not everyone is a do-it-yourselfer.

In addition to the expanded home care centers, K mart has two other versions, the limited home care center which has no lumber, and the regular home care center which is smaller than the expanded department, featuring a merchandise assortment limited by available space.

These three versions of the home care center are proving to be testing grounds for new products that eventually appear on the shelves of its traditional hardware departments, Jones said. Such new additions have recently included portable electric generators, wood clamps and arc welders.

Although K mart is being the most aggressive of the three in hardware, both Wal-

(Continued on page 175)



Wal-Mart's presence in smaller markets often positions the discounter as a destination store for hardware, paint and other home improvement products.



Despite its soft goods image, Target has been expanding assortments, improving depth and upgrading merchandise in its hardware and home improvement categories.

(DSN photos)

K MART/WAL-MART/TARGET**HARD LINES: HARDWARE****K mart Leads in Hardware; Develops Home Care Centers***(Continued from page 173)*

Mart and Target have been expanding their assortments, improving depth and upgrading their merchandise.

For example, Wal-Mart was the first of the three discounters to begin offering Schlage's new Keepsafer Compact Home Security System, even though K mart and Target worked with Schlage to develop it.

But since last January when Wal-Mart started selling the Schlage Keepsafer Compact at 35 stores, only 50 to 70 stores currently have the item. Target added the system last April and has it available in all its stores, and K mart, now offering it at 400 stores, will have the Keepsafer Compact in all stores by next Christmas.

The Keepsafer system was developed by Schlage with the assistance of K mart and Target because both companies expressed an interest in developing a home security product that cracked the \$100 price point, was convenient to stock and appealed to a specific demographic audience: females between 25 and 40 years old, married, with children and household incomes of \$25,000 to \$35,000, said Markes, of Schlage.

Home Security

Home security is only one product area in the hardware department that these retailers are showing a more aggressive stance on than in recent years.

A spokesman for Black & Decker, the Maryland-based power tool supplier, said that these retailers are also looking for more cordless tools, such as the cordless screwdriver, which it just started to ship. And, Rayovac, the Wisconsin battery company, noted that the top discounters are "getting very aggressive" with promotions on batteries.

In fact, merchandising is taking on a new luster in the hardware department, particularly with batteries.

Now thought of mainly as a hardware item, batteries originally were merchandised in the sporting goods department. Now they are cross-merchandised throughout the store in such departments as toys, automobiles, electronics and photography, in addition to hardware, sporting goods and at the checkout area. And, they are advertised now.

The competitive arena of hardware is shaking out the sales dollars into distinct categories.

The Shapiro survey revealed that when it comes to actually spending money at these retailers, Target customers bought more hardware products if a Wal-Mart store was in the same market. K mart did best if shoppers could choose among the three discounters, but lost out if it faced just Wal-Mart.

And Wal-Mart did best if it was by itself in a market. It was the least successful in the hardware category if it faced K mart, the study showed.

Despite its small market

thrust, Wal-Mart did especially well in hardware in large metro stores—populations of 1 million or more. These urban stores attracted more hardware buyers than they did in small metro areas—populations of 50,000 to 1 million—and in non-metro communities. This is probably due to its sharp pricing advantage over its competitors.

In the large metro areas, 5.1 percent of Wal-Mart shoppers said they mainly spent their money on hardware products during their visits to the store in the past year, compared to 3.6 percent in small metro areas and 3.8 percent in non-metro communities.

The competitive arena of hardware is shaking out the sales dollars into distinct categories.

K mart was the most successful of the three retailers in both large and small metro areas where the greatest number of its home care centers are located. Small metro area stores did best in hardware, with 8 percent of shoppers citing hardware as the category in which they mainly spent their money at K mart during the past year. In large metro areas, that percentage fell to 6.6 percent, and to 3.3 percent in non-metro markets.

Despite Target's metropolitan thrust, it did best in hardware sales in the non-metro areas. Nearly 5 percent of Target shoppers in non-metro areas named hardware as the category in which they mainly spent their Target dollars during the past year, compared to 4.1 percent in small metro areas and 4.3 percent in large metro areas.

DSN market visits to Austin, Tex., Memphis, Tenn., St. Louis, and Wichita, Kan., revealed that Wal-Mart offered the lowest everyday prices of the three chains throughout the hardware department. K mart and Target were almost even, offering about the same number of "highest" and "lowest" prices in this category.

On nine hardware products in these markets, Wal-Mart offered the lowest price on more than half the items. Target was lowest on about 20 percent of the items, and K mart was lowest priced on about 17 percent. Target was the highest on about 40 percent of the items. Wal-Mart was highest on only 5 percent, and K mart was highest on 36 percent of the product.

For example, a Stanley Powerlock tape measure, model 33-116, was priced at \$7.94 in a St. Louis Wal-Mart. K mart charged its St. Louis customers \$11.47 for the same tape measure and Target priced it at \$12.49.

These prices do not hold firm in the other markets. In Austin and Memphis, for example, Wal-Mart charged customers \$8.86 for the same tape measure. Target's price held firm at \$12.49 but K mart was sharper at \$8.46 in Memphis and \$8.49 in Austin.

On a B&D finishing sander, model 7448, the price fluctuated from a low of \$22.76 by K mart in Memphis to a high of \$26.97 by K mart in Austin and St. Louis.

Black & Decker's Dustbuster, model 9330, also saw price fluctuations, from a low of Wal-Mart's \$21.98 in Memphis to a high of \$27.87 by K mart in Austin and St. Louis.

And, a single 9-volt Duracell battery ranged from a low of \$1.56 by K mart and Wal-Mart in Memphis to \$2.19 by Target in Austin.

MARKET BASKET: Hardware

Prices on selected hardware products sold at all three chains

Market	K mart	Wal-Mart	Target
Black & Decker finishing sander, No. 7448			
Austin, Tex.	\$26.97	\$24.58	\$23.49
Memphis, Tenn.	22.76	24.58	23.49
St. Louis, Mo.	26.97	24.58	23.49
Wichita, Kan.	25.99	24.58	25.99
Black & Decker circular saw, No. 7308			
Austin	49.97 ¹	39.91 ¹	39.99 ¹
Memphis	46.99 ²	39.96 ²	39.99 ²
St. Louis	31.97	31.96	31.99
Wichita	28.96	31.96	31.99
Black & Decker 3/8-in. drill, No. 7143			
Austin	25.97	21.96	26.39
Memphis (7144)	26.97 ²	29.97 ²	26.39 ²
St. Louis	25.97	18.96	22.99
Wichita	25.97	21.96	26.39 ¹
Black & Decker Dustbuster, No. 9330			
Austin	27.87	24.64	23.99
Memphis	N	21.98	24.49
St. Louis	27.87	24.64	24.49
Wichita	N	24.64	24.99
Duracell batteries, 9-volt, 1-pack			
Austin	1.99	1.83	2.19
Memphis	1.56	1.56	1.59
St. Louis	1.99	1.98	1.94
3M sandpaper, assorted, 5 sheets, 9-in. by 11-in.			
Austin	1.89	1.88	1.79
Memphis	N	1.88	1.79
Wichita	1.78 ³	N	1.79
House paint, 1-gal. acrylic, exterior, white			
Austin	14.47 ⁴	10.44 ⁵	12.99 ⁶
Memphis	14.97 ⁶	10.44 ⁵	9.99 ⁶
St. Louis	15.97 ⁶	9.00 ⁵	10.49 ⁶
Wichita	10.99 ⁶	10.44 ⁵	10.49 ⁶
Stanley saw, 26-in. crosscut, No. 15350			
Austin	7.97	7.96	N
Memphis	4.71 ⁷	4.78 ⁷	4.79 ⁷
St. Louis	7.97	4.78	7.99
Wichita	7.97	7.96	9.99
Stanley Powerlock tape measure, 16-ft. by 3/4-in.			
Austin	8.49	8.86	12.49
Memphis	8.46	8.86	12.49
St. Louis	11.47	7.94	12.49

¹No. 7391; ²No. 7144; ³Norton; ⁴Dutch Boy; ⁵Lucite; ⁶Glidden; ⁷No. 726

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research

Super J-can

Portable Gasoline Container From Reliance

with the **INTER-LOK** One Piece Spout System
Easy carry . . . easy pour . . . easy store

- A quarter turn of the wing nut locks the Inter-Lok spout securely into place
- Creates a tight, leakproof connection
- Reverse the spout into the container for easy storage
- It's a snap!

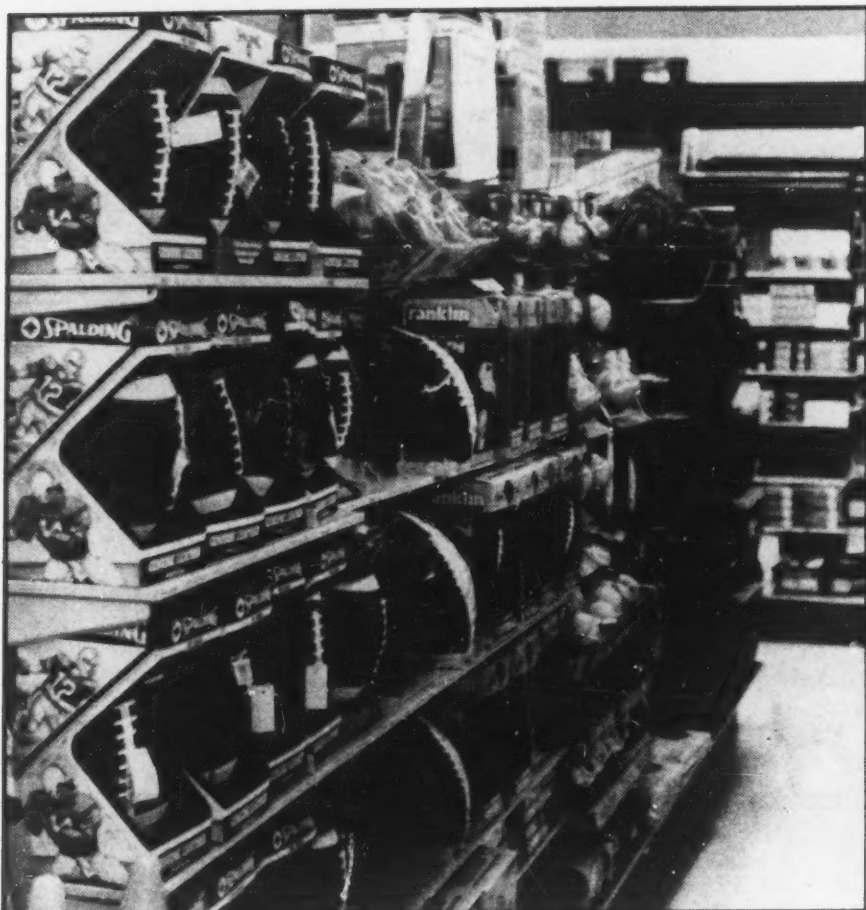
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K MART/WAL-MART/TARGET

HARD LINES: SPORTING GOODS



K mart, Metairie, La.: In basic team sports and fishing equipment, 'K mart is the best in the country,' said one sporting goods competitor.



Wal-Mart, Eureka, Mo., maintains a strong in-stock position for its essentially blue collar sports enthusiast.



Target, with a more upscale product selection, especially in tennis and camping goods, appeals to a more white collar sports consumer. (DSN photos)

Chains Build on Strengths in Sporting Goods

For many discounters, sales and margins in sporting goods departments have not kept pace with other more profitable areas, sometimes resulting in a de-emphasis of the category.

But that trend isn't true with K mart, Wal-Mart and Target, which are maintaining or even building their sporting goods presence, according to several of their vendors.

The explanation? "The reason most chains are retrenching is because the Big Three aren't," one vendor said. "K mart and Wal-Mart, between them, dominate the sporting goods market. They account for 50 percent of retail sales in some categories, and sometimes consume 60 percent or 70 percent of some manufacturers' output."

On the whole, suppliers hold a high opinion of all three retailers. "They know their consumer," one said. "K mart, in particular, up-scaled when it became obvious that that's where the market was headed." That manufacturer cited K mart's aggressiveness at Christmas as key to making sporting goods a year-round business.

"By actively promoting sports equipment as ideal gift material, they also built themselves up as the place to buy sporting goods," he said.

However, Wal-Mart, with its primarily southern, rural locations, may be even stronger in its markets than K mart is nationally. "The store count may be two to one, but I doubt the department sales are," he said. Target, on the other hand, was viewed as "less than a power" in the category, due to its far lower store count and its primarily urban locations.

Other vendors agreed with many of those observations, although admiration for Target's merchandising capability was a bit more pronounced with several.

"Target is the best of the three in merchandising know-how," said one supplier. "The company has great responsibility to product and price, makes its decisions very early, and is highly systemized."

Sportsmen Choose K mart

Percent of shoppers who mainly spent their money on sporting goods/fishing equipment at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	4.7%	4.7%	3.6%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	5.0	1.8	3.6
In Non-Metro Areas (Rural)	6.4	5.5	1.6

Source: Leo J. Shapiro & Associates/DSN, December 1987

"K mart is the opposite; they're so busy importing direct that they've lost touch with the market. Their buyers are trying to be product designers, which they're not, that they don't have time for vendors or market research. Consequently, they don't have the best goods anymore, because they're two or three years behind the market."

The vendor, who requested anonymity, added that Wal-Mart, with near monopolies in many of its markets, hasn't had to be in the forefront. "They have the lowest prices—and they should," he said. "They have a lot of superfluous goods and terrible packaging, but where else are their customers going to go? Wal-Mart looks great in the boondocks, but not so good in major markets where it has to meet real competition."

Research Concurred

The latter observation was at least partially borne out by research conducted for DSN by Leo J. Shapiro and Associates this fall. Respondents who said that they had one or more of the three chains in their area were asked, among other things, if they had shopped the store in the past year. In small metro/non-metro areas, over 83 percent of respondents had shopped Wal-Mart in the past year; in metro areas of over a million population, the percentage was 62.6, a significant drop.

While K mart showed a similar, but less pronounced drop (84 percent in small metro/non-metro areas vs. 75.7 percent in big metro ar-

reas), Target, with primarily urban locations, rose from 70 percent in small metro/non-metro markets to 77 percent in the bigger cities.

A long-time sporting goods retailer, on the other hand, felt that all three share the same strengths and weaknesses. "In cheap team sports and fishing equipment, K mart is the best in the country," he said. "Wal-Mart and Target are in roughly the same boat, but not on the same scale."

He added that all three maintain very strong in-stock positions and are essentially battling each other for the blue collar market. "The upscale customer or specialist does not think K mart when he decides where to shop," he said.

Top brand suppliers were considerably more circumspect when talking about any of the Big Three, whether or not they dealt with all of them. "We won't deal with one of them, but I'm not going to say which one," one athletic goods supplier said, adding that the other two were his best customers. "They're both knowledgeable and aggressive marketing forces, and we have no complaints," he said.

DSN's research bears out much of what vendors said about the Big Three. In the sporting goods category, all three were fairly evenly matched, although Target seemed to be surprisingly aggressive on price, often undercutting Wal-Mart (one of the few categories where that held true) and routinely beating K mart on price.

MARKET BASKET: Sporting Goods

Prices on selected sporting goods sold at all three chains

Market	K mart	Wal-Mart	Target
Zebco 33 Classic reel			
Memphis, Tenn.	\$35.97	\$31.47	N
Wichita, Kan.	29.97	29.78	N
Wilson Pro 1000 basketball			
Memphis	11.97	N	\$ 9.99
St. Louis, Mo.	11.97	19.97	9.99
Wichita	11.97	19.96	9.99
Spalding Larry Bird vinyl basketball			
Austin, Tex.	N	14.93	14.99
Memphis	N	14.93	14.99
St. Louis	29.97	14.93	12.99
Wichita	14.97 ¹	14.93	14.99
Coleman PolyLite cooler, 48-qt.			
Austin	N	18.46	18.79
Wichita	18.77	N	18.79
Coleman standard 2-burner stove, No. 425F499			
Austin	30.97	34.26	30.79
Memphis	33.97	34.26	30.79
St. Louis	30.79	N	30.79
Wichita	30.79	34.26	30.79
Wilson mid-size American Aces tennis racquet			
Memphis	N	19.96	24.99 ²
St. Louis	25.97 ²	N	24.99 ²
Wichita	29.97 ²	19.96	24.99 ²

¹Michael Jordan model; ²with cover

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research

Wal-Mart, in the markets surveyed by DSN, tended to be much stronger in guns, ammunition and archery, and also appeared to be better stocked all around. Target, contrary to what the vendors reported, seemed to be more likely to be out of stock or thinly stocked than did its rivals.

However, Target, along with its sharp prices, also tended to have more upscale products and had a distinct edge in product presentation. If, in fact, Wal-Mart and K mart are carving up the blue collar market, Target appears to be trying to attract white collar sports consumers. It may, in fact, view specialty sporting goods stores as its primary competition in the category. The company was particularly strong in tennis and camping goods, both of which appeal to the affluent customer.

According to the Shapiro research, Target tended to be more brand conscious than its rivals, and consumers tended to identify price orientation more with K mart and Wal-Mart than with Target, indicating, perhaps, a more "quality" image among shoppers.

That may be one of the reasons that Target, of the three, proves to be the most resistant to competition when at least one of the others has a store in its market, measured by decline in annual average customer expenditure.

While all three show declines when at least one of the others shares a market, Target's decline (\$304 when unopposed, \$295 with one competitor, \$294 with two) is much smaller than K mart's (\$257 when unopposed, \$217 and \$178 otherwise) or Wal-Mart's (\$435 when unopposed, \$355 and \$253 otherwise).



With sharp promotional prices in its health & beauty aids department, Target hopes to attract consumers to other, higher-margin departments within the store.

Big 3's Sharp H&BA Prices Lure Shoppers

A consumer might buy a jug of anti-freeze twice a year, a new basketball every five years and a vacuum cleaner every 10 years, but health & beauty aids is a monthly, if not weekly purchase, a shopping frequency chains want to encourage.

The shopper probably knows the price she pays for her tube of toothpaste, deodorant and shampoo as well as she knows the ages of her own children due to the high usage rate of these items. The hope is, of course, that bare-bones margins on H&BA commodities will lead her to assume the store is low-priced on everything, and visit other departments before leaving.

The Big Three discounters are sharp on pricing, nearly to a fault, according to sales and

In general, the lower the population density of a particular market, the greater the percentage of dollars spent at the Big Three's H&BA departments.

marketing executives with the leading H&BA manufacturers.

"Everyday pricing at Wal-Mart cannot be beat," is the consensus among vendors who do business with each of the three top chains. Target's promotional pricing outshines Wal-Mart's, they said, while K mart pricing was considered least price aggressive of these retailers on an everyday basis. K mart was said to be nearly on par with Target during ad weeks, however.

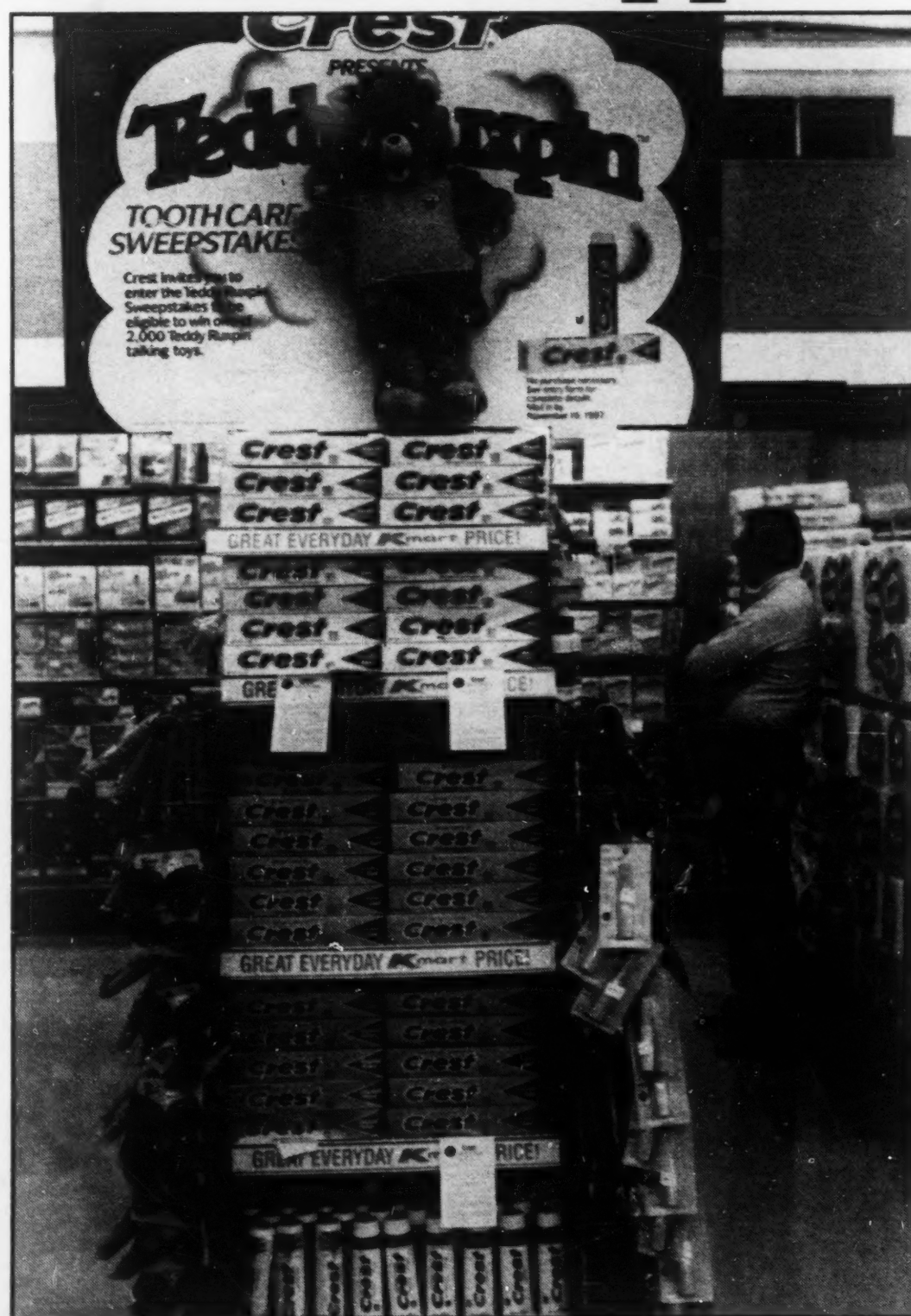
"When Wal-Mart and K mart have a promotional sale, they use their cubes and tables, which Target doesn't have. But Target can put the same merchandise on an end-cap to create a wall of product that you just can't miss," one vendor noted.

Regardless of vendor impressions, a DSN price study conducted in October in four markets where each of the three chains operate stores indicated that K mart had the lowest prices on a small sampling of H&BA merchandise.

Adding the prices on six items that each chain offered in all of the markets studied, the K mart market basket totalled \$51.55 compared with \$53.16 at Target and \$53.32 at Wal-Mart.

The six items (Ivory and Agree conditioners, Mennen and Secret deodorants, Colgate toothpaste and Vicks Nyquil) are not a large enough sampling to make any definitive conclusions about chain pricing, but can suggest that

(Continued on page 181)



On everyday prices, K mart tended to be higher than Wal-Mart and Target in H&BA. But its promotional activity, like this Crest/Teddy Ruxpin sweepstakes offer, is unparalleled. (DSN photos)

Target: Strong H&BA Source

Percent of shoppers who mainly spent their money on H&BA at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	10.7%	9.2%	8.2%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	13.2	14.5	20.6
In Non-Metro Areas (Rural)	13.9	19.5	19.2

Source: Leo J. Shapiro & Associates/DSN, December 1987

K MART/WAL-MART/TARGET

HARD LINES: H&BA



While its selection of H&BA products may be slightly narrower than K mart's or Target's, Wal-Mart is always well-stocked and holds the leadership in low everyday prices.



Shampoo is displayed on three- and four-shelf stackouts in health & beauty aids department of this Metairie, La., K mart store.

(DSN photos)

MARKET BASKET: Health & Beauty Aids

Prices on selected H&BA products sold at all three chains

Market	K mart	Wal-Mart	Target
Ivory conditioner, normal, 15-oz.			
Austin, Tex.	\$1.67	\$1.68	\$1.69
Memphis, Tenn.	1.50	1.50	1.49
St. Louis, Mo.	1.59	1.65	1.59
Wichita, Kan.	1.68	1.48	1.69
Agree conditioner, reg., 15-oz.			
Austin	2.67	1.99	2.39
Memphis	1.94	1.94	1.99
St. Louis	2.39	1.94	1.99
Wichita	2.37	1.94	2.39
Trojan condoms, reg., 12-pack			
Austin	3.66	2.48	2.39
Memphis	3.66	2.03	2.39
St. Louis	4.15	2.48	2.39
Wichita	3.36	2.48	8.99 ¹
Mennen Speed Stick deodorant, reg., 2.5-oz.			
Austin	1.99	2.16	2.19
Memphis	1.76	2.16	1.79
St. Louis	1.99	1.86	1.59
Wichita	1.79	1.67	1.79
Crest tartar control toothpaste, 6.4-oz.			
Austin	N	1.56	1.59
Memphis	1.77	1.48	1.39
St. Louis	1.59	1.56	1.19
Wichita	1.28	1.28	1.29
Colgate toothpaste, reg., 7-oz.			
Austin	1.49	1.48	1.39
Memphis	1.36	1.48	1.39
St. Louis	1.29	1.48	1.29
Wichita	1.59	1.48	1.59
Secret Solid deodorant, 2-oz.			
Austin	2.43	1.92	2.59
Memphis	2.43	2.24	1.99
St. Louis	2.49	1.97	1.99
Wichita	2.29	1.97	2.59
Gillette Foamy shave cream, 11-oz.			
Austin	1.29	1.67	1.69
Memphis (sensitive skin formula)	1.97	1.48 ²	1.49
St. Louis	1.97	1.67	1.29
Wichita	1.97	1.67	1.69
Vicks Nyquil Nighttime cold medicine, 10-oz.			
Austin	4.49	4.08	4.49
Memphis	2.97	3.57	3.69
St. Louis	3.19	4.84	3.09
Wichita	2.19	4.84	4.49
Gillette Atra blade cartridges, 10-pack			
Austin	3.69	3.87	4.29
Memphis	3.49	3.48	3.49
St. Louis	3.94	3.87	3.94
Wichita	3.87 ³	3.76	4.29
Halls Mentholypus, 30-count bag			
Austin	N	0.97	0.99
Memphis	1.14	0.81	0.99
St. Louis	1.07	N	0.99
Wichita	N	0.97	0.99

¹3-doz., ²with 30¢ instant coupon, ³12-pack

Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research

Improvement Needed On Out-of-Stocks, Selection

(Continued from page 179) store price impressions hinge on the type of H&BA products the individual customer buys.

None of the chains have a glaring problem when it comes to pricing, but there are deficiencies when it comes to keeping adequately stocked and offering a sufficient selection, vendors said.

A number of manufacturers said that Wal-Mart does not have the selection in H&BA that K mart and Target offer customers, but at least Wal-Mart is always well-stocked.

One vendor termed K mart's H&BA department

as a "chronic catastrophe" as far as keeping in stock is concerned. Another believes the chain does not see out-of-stocks as much of a shortcoming.

"I'm not sure they see it as a problem. They think they have a wide enough selection. They assume a consumer will just pick up something else... being out of stock doesn't really matter in H&BA."

While Target's H&BA stock situation was considered to be good, there was some concern as to whether the chain's stores will soon resemble K mart's.

"Target's new JIT—Just In Time system—means promotional goods won't be warehoused but will be sent directly to stores, and could cause out-of-stock problems," one vendor noted. None of the manufacturers said they have had any problem with JIT to date.

Heavy Traffic

While purchases made in almost any other discount department would generate greater total revenue for the retailer, H&BA was cited by as much as 21 percent of customers recently surveyed as

the category they spent most of their discount dollars on during the past year.

A telephone survey of 1,800 heads of households across the country by Leo J. Shapiro & Associates indicated that, in general, the lower the population density of a particular market, the greater the percentage of dollars spent at the Big Three's H&BA departments.

As might be expected, K mart's H&BA category claimed the most dollars in metropolitan areas, with 11 percent of shoppers citing H&BA as the category in

which they mainly spent their money at K mart during the past year. Wal-Mart edged out Target in non-metro/rural areas—20 percent of Wal-Mart shoppers said they mainly spent their Wal-Mart dollars on H&BA products during the past year vs. 19 percent of Target's shoppers.

In small metro areas, cities of 50,000 to 1 million people, Target outdistanced the other two chains: 21 percent of Target shoppers mainly spent their money in the H&BA department, compared with 15 percent at Wal-Mart and 13 percent at K mart.

Target, Wal-Mart Expand Home Office Items

Target and Wal-Mart are looking toward the future of the stationery department by expanding their offerings of home office products. Both these chains were cited by vendors as being aggressive in their stationery merchandising strategies. For now at least, K mart appears less oriented toward the home office category but does offer a wide selection of basic, low-priced items in stationery.

"All three could improve their stationery departments by putting in a stronger year-round program instead of viewing stationery as a seasonal department," said one prominent vendor who asked not to be identified.

Fashion Foothold

A recent consumer survey of K mart, Wal-Mart and Target shoppers also revealed that Target's fashion foothold propels its stationery selection beyond department offerings at either K mart or Wal-Mart stores.

Color and style awareness in hard lines merchandise like stationery was evidently the vehicle that drove more Target customers to do most of their shopping within the department. In fact, when Target was in direct competition with K mart and Wal-Mart stationery departments, preference for Target heightened.

Regardless of whether the three chains were competing in metropolitan areas of over 1 million people, small metro areas with populations of 50,000 to 1 million, or non-metro areas, a larger percentage of Target customers said they mainly spent their money in the stationery department of the store than did shoppers at the other two chains.

The statistics were generated by a study of 1,800 people conducted for DSN by the Chicago-based Leo J. Shapiro & Associates research firm.

Nine percent of Target shoppers in metro areas said they mainly spent their money



Products for the home and office have carved out their own significant niche in K mart's stationery departments.

on stationery merchandise compared with 4 percent at Wal-Mart and 3 percent at K mart.

In both small and non-metro regions, nearly 7 percent of Target shoppers said they mainly spent their Target dollars in the stationery department, compared to 4 percent at Wal-Mart and between 2 percent and 3 percent at K mart.

Not only did more customers overall go to Target specifically to shop for stationery department products, the percentage of customers shopping Target mainly for stationery items actually increased when the upscale discounters shared a market with Wal-

Mart. Target's fashion position along Wal-Mart's basics enhanced its image among consumers, vendor and industry sources acknowledged.

When Target was alone in a market area, 4 percent of its shoppers said they mainly spent their money in the discounters' stationery department. When the market was shared with K mart alone, there was no change in that percent.

Percentage Surges

But, when Wal-Mart shared the market with Target, the number of Target customers who said they mainly spent their money on stationery surged to 14 percent, and

dropped to only 13 percent when all three of the discounters were in a market together.

When K mart was in a market without the other two chains, 2 percent of its customers said they mainly spent their K mart dollars on stationery. This number rose to 8 percent when all three competitors shared the market, but did not rise at all when just Target or just Wal-Mart were present.

Wal-Mart was the only chain that showed a decline in all instances as competition increased. When alone in a market, 6 percent of Wal-Mart shoppers said they mainly spent their Wal-Mart dollars in stationery. With either a

Target or a K mart in the area, the number dropped to 3 percent.

And, when all three big discounters shared a market, only 5 percent of Wal-Mart shoppers said they mainly spent their money on stationery at Wal-Mart.

The impact of price on these shopper habits was difficult to measure within the stationery department. While there are few substitutes for Visions cookware in housewares or Colgate toothpaste in health & beauty aids, the abundance of stationery vendors which produce essentially the same merchandise allow the Big Three to differentiate them-
(Continued on page 184)



Color and style awareness helps drive more customers to Target for stationery products. (DSN photos)

MARKET BASKET: Stationery

Prices on selected stationery products sold at all three chains

	K mart	Wal-Mart	Target
Crayola markers, broad, 8-count, bright			
Austin, Tex.	\$2.19	\$1.96	\$1.99
Memphis, Tenn.	1.67	1.96	1.99
St. Louis, Mo.	2.19	1.96	2.19
Wichita, Kan.	2.19	N	1.99
Bic 10-pack Biro pens, medium blue			
Austin	1.38	1.00	N
Memphis	1.00	1.34	N
St. Louis	1.38	1.34	1.39
Wichita	1.38	0.89	N
Papermate 10-pack pens, medium blue			
Austin	1.38	1.34	1.39
Memphis	1.38	1.34	1.39
Wichita	1.38	0.94	1.39
Generic filler paper, wide ruled, 200 sheets			
Austin	0.59	0.63	0.59
St. Louis	0.69	0.63	0.57
Wichita	N	0.63	0.59

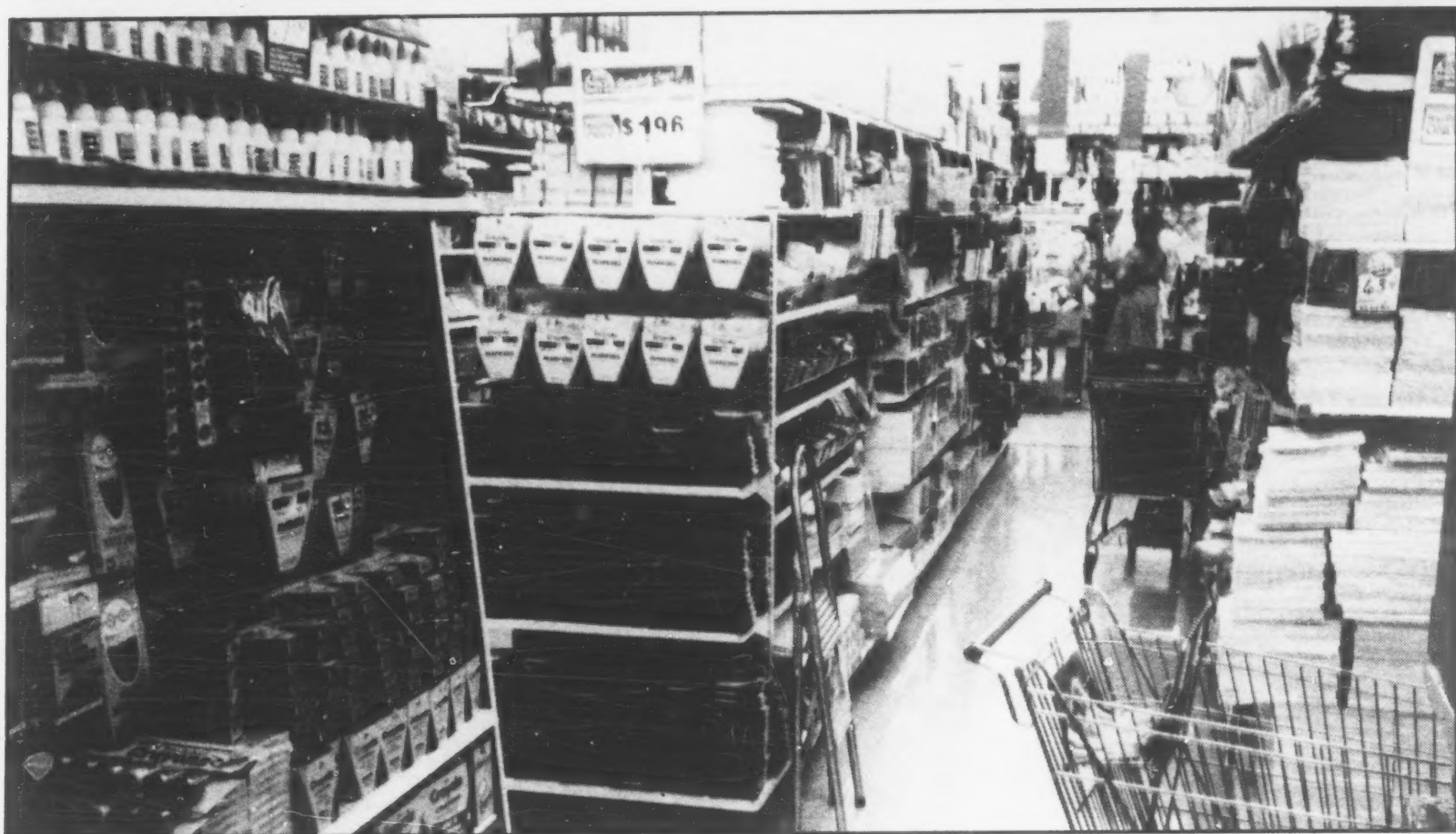
Market baskets were conducted in October 1987 in area stores.

N—not carried or not in stock

Source: DSN research

HARD LINES: STATIONERY

K MART/WAL-MART/TARGET



Wal-Mart's stationery department gets squeezed when faced with competition from one or both of the other major discounters, according to consumer research. (DSN photo)

In Stationery, Target Leads the Race

Percent of shoppers who mainly spent their money on stationery/school supplies at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	3.3%	4.2%	8.5%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	2.2	4.2	6.6
In Non-Metro Areas (Rural)	2.6	4.0	6.6

Source: Leo J. Shapiro & Associates/DSN, December 1987

K mart Sticks to Basics

(Continued from page 183) serves from one another by relying on alternate sources.

For example, Mead is more integral to the Wal-Mart and

Target stationery selections than to K mart's, according to DSN's 1987 Top Brands survey, released earlier this year. Just 24 percent of store managers at K mart named that vendor as a leading department brand, compared with 70 percent at the two other chains.

By selecting to work with the stationery manufacturers that are not used by the competition, K mart, Wal-Mart and Target escape direct price competition from each other. As a result, a market basket study conducted by DSN at these chains in five market areas was difficult to complete.

Target's storewide fashion image could be a fundamental reason for the higher spend rate in stationery, a category that has become increasingly driven by color and style.

Target's storewide fashion image would appear to be a fundamental stimulus fueling the higher spend rate in the chain's stationery department, a category that has become increasingly driven by color and style.

"Target is certainly the strongest in stationery fashion of the three," said an industry source, who added that Target's overall category appearance is better because it is serviced by rack jobbers, while no Wal-Mart and few K mart stores have serviced stationery departments.

K mart, which has been fingered by vendors as the worst out-of-stock offender of the top three chains, could be feeling the effects of poor maintenance in terms of dollars spent in the department.

Substituting one shampoo for another that is not in stock might not be uncommon. But an industry supplier pointed out that in stationery, if a child's teacher said to come to class the next day equipped with a 16-count box of crayons and an 8½-inch by 11-inch composition book and the shelves are not stocked with these basics, the child and money-toting parent might not be back next school year.

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K MART/WAL-MART/TARGET

HARD LINES: FOOD/SNACKS

Variety of Foods Increasing But Snacks Still Integral

In May, a K mart store in Largo, Fla., held a wine tasting program in the front of the store to promote a specific brand of wine.

Such a promotion is a clear sign that the food department at discount stores has grown beyond the traditionally-stocked items like chips, soft drinks and candy.

In fact, food, snacks and beverages are no longer stocked by discounters just for spontaneous add-on sales, but are being used increasingly as "drive items," several industry experts said.

"Everybody eats, and if you can have a food product in your ads that people notice, you'll draw a crowd," ob-

many of these items, and are expected to improve.

For example, pigs' feet and ham hocks are "basic" items at K mart, and have been for years. Canned fish is also popular, as are fruit juices and macaroni and cheese dinners, Dobson said.

And now bursting onto discounters' shelves with instant success are microwaveable foods such as popcorn and cake mixes. Dobson anticipates that in the near future, microwaveable entrees will be available, too.

The challenge facing discounters choosing to sell "food" is in being priced below supermarkets, Dobson noted. For now, though, snack foods,

ed its front-end confectionary program from primarily gum and mints to an assortment of candy, including single candy bars and multi-packs.

Target also increased its candy presentation, displaying single candy bars at alternate checkouts.

K mart upgraded its confectionary presentation, too. It added one more checkout for candy, which features the large or king-size candy bars.

"It's just extra business," said one major confectionary supplier, who noted that 82 percent of candy bar sales are purchased on impulse.

"You either get it or you don't depending on availability," he said, adding "accessibility is a big part of sales."

K mart has taken that statement to heart.

Nearly three years ago, K mart converted 30 to 40 of its cafeteria areas to specialty food and beverage departments, plus expanded the food areas at 300 to 400 other K mart stores.

In addition to snack foods, K mart collected a variety of "basic" food products like pigs' feet, ham hocks and macaroni and cheese dinners and paired them with such gourmet food items as caviar and anchovies.

Although shoppers failed to see K mart as the place to buy caviar, they did accept the discount as a place to buy some basic food products. Since then, K mart has continued to refine its food mix to appeal to local tastes and to keep up with new product introductions, Dobson explained.

Despite these efforts to drive sales in the food, snack and beverage departments, these items continue to be purchased mostly on impulse.

According to a recent Leo J. Shapiro survey of buying habits at K mart, Wal-Mart and Target, shoppers do not place food very high on their lists when they go to these stores, nor do they spend a substantial amount of money on them at these stores.

When consumers were asked what they mainly spent



Canned fish is among the most popular food items found in this Sterling Heights, Mich., K mart.

their money on when shopping these three stores, food hardly elicited a response.

The highest response was at Wal-Mart, with fewer than 3 percent of its shoppers saying they mainly spent their money on food when in the stores. The response rate to food slightly outpaced responses for small electric appliances, tapes and film, pharmacy, gifts and presents, infant furniture and domestics.

K mart shoppers listed food above tapes and film, drapes, curtains and blinds, and infant clothing. At Target, food fared better than infant clothing, pharmacy, drapes and curtains, and craft materials.

When measured against one another, K mart's food department did best when it faced both Wal-Mart and Target in a market, but did poorly when it faced either one individually. In fact, when it faced either Wal-Mart or Target in a

market, no consumer responses were recorded when shoppers were asked what they mainly spent their money on when in the store.

Wal-Mart substantially outgunned its competition in the food department when it faced competition, according to survey results. But against K mart alone, consumers provided no responses.

Target did best when it was alone in a market or when its rival was just Wal-Mart. It did poorly against K mart alone and when it faced both Wal-Mart and Target in the same market, recording no consumer responses.

By market size, Wal-Mart performed best in both large and small metro areas, dramatically outpacing both Target and K mart in food sales.

All three did poorly in non-metro areas, however, probably due to their smaller stores with limited food sku's.

Wal-Mart Draws Food Shoppers

Percent of shoppers who mainly spent their money on food at the store during the past year

Market	K mart	Wal-Mart	Target
In Metro Areas (Pop. over 1 mil.)	1.9%	5.4%	1.3%
In Small Metro Areas (Pop. 50,000 to 1 mil.)	0.6	4.4	0.9
In Non-Metro Areas (Rural)	1.2	0.8	0.0

Source: Leo J. Shapiro & Associates/DSN, December 1987

served Joe Dobson, buyer for packaged deli products, beer and wine at K mart.

As a department, food, including candy, chips, soft drinks and now beer and wine, is being expanded by discounters, particularly K mart, Wal-Mart and Target, several suppliers said.

Food offers consistently high turns and respectable margins. For example, beer turns 20 to 30 times a year and wine 10 to 15 times at K mart, Dobson said. Soft drinks turn 50 times a year, and candy even more than that.

These items continue to be particularly strong sellers for discounters. "Real" foodstuffs have not yet made a major impact on category sales, although K mart and Wal-Mart are fairly successful with

candy and soft drinks remain the core of the food business for these three retailers. These products consistently find their way onto ad pages and frequently are featured on special sale tables along high traffic aisles.

Several manufacturers told DSN that Target is particularly strong in its presentation of soft drinks because it has made a strong commitment to this merchandise. Regular foodstuffs are not as important at Target, and generally are purchased for special or seasonal promotions.

Wal-Mart is strongest in name brand snacks, particularly confectionary, where it has recently made a major change in its presentation.

The Bentonville, Ark.-based discounter has upgrad-



Snack foods, candy and soft drinks, like these at a Memphis-area Wal-Mart, remain the core of the discounter's food business.



Target's food and snacks department is strongest in its presentation of soft drinks, but regular foodstuffs are not as important. (DSN photos)

Earnings at Discounters Squeezed in Soft Third Quarter

(Continued from page 7)
percent sales gain.

Target's third quarter sales rose 19 percent to \$1.22 billion from \$1.02 billion a year ago. Same store sales crept up 2 percent. D-H does not release Target's quarterly operating profit, but did say it declined "slightly." Chairman Kenneth A. Macke blamed the earnings decline on "expenses related to an aggressive store opening program," including 35 Target

stores and 10 Mervyn's stores.

Among the Target openings were 24 units in California, the remainder of 50 acquired and converted from Gemco. Those conversion expenses alone hurt third quarter earnings by \$10 million, or 6 cents a share.

At Bradlees' parent, Stop & Shop, third quarter profits rose 9 percent on a 10 percent sales gain. But Bradlees' contribution to net earnings fell.

In this year's third quarter,

Bradlees contributed 33.4 percent, or \$6.9 million, of corporate operating profits, down from 56.7 percent, or \$13.6 million, a year ago.

Sales during the third quarter rose to \$1.4 billion from \$1.27 billion a year ago.

Chairman Arvan J. Goldberg said "Bradlees' sales were very soft at the end of the third quarter. 'Pre-Thanksgiving sales at the beginning of our all-important Christmas selling period showed signs of strengthening, with comparable stores again running ahead.'"

Citing continuing inventory problems, Ames Department Stores said its third quarter profits fell 33.5 percent to \$7.35 million, or 20 cents a share, from \$11.1 million and 30 cents a share in the previous year's quarter.

Sales rose 8.5 percent to \$512.7 million in the third period from \$472.4 million last year. Comparable store sales rose 4.6 percent.

For the nine months, net earnings were \$16.1 million, compared to \$23.1 million in 1986. Sales for the nine months rose to \$1.45 billion, up 12.5 percent from \$1.29 billion last year.

Net profits of Zayre Corp. slipped 7.6 percent on a 21.7 percent sales increase, largely

because operating profits of its Zayre Stores division plunged 71.5 percent.

Net income for the corporation slipped to \$21.1 million, or 36 cents a share, from \$22.9 million and 38 cents a share.

Operating income for Zayre Stores alone plunged to \$7.6 million from \$26.7 million in the third quarter of 1986.

Zayre chairman Maurice Segall attributed the decline to "an aggressive pricing and advertising posture which led to reduced merchandise margins and gross profit dollars."

Sales for the entire corporation totaled \$1.6 billion for the quarter, compared to \$1.32 billion a year earlier. Sales for Zayre Stores rose to \$849.7 million from \$710.9 million.

In sharp contrast, Hills Department Stores reported a whopping 92 percent gain in third quarter profits on a 14.4 percent sales increase as it whittled down its net loss for the year to date.

Net income for the third quarter rose to \$9.7 million, equal to 48 cents a share, from \$5.1 million and 34 cents a share a year ago. That helped to reduce losses for the first nine months to \$13.5 million, down from losses of \$63.4 million in the same span of 1986.

Sales for the 1987 third quarter rose to \$410.8 million

from \$359.2 a year ago. Same store sales rose 5.3 percent.

For the nine months, Hills' sales rose to \$1.01 billion from \$887.6 billion a year earlier.

Jamesway reported an 11.5 percent decline in third quarter profits to \$3.7 million from \$4.1 million in the same quarter last year. Sales rose 14 percent to \$171 million from \$150.4 million a year ago.

For the nine months, Jamesway profits rose to \$7.8 million from \$7.6 million a year ago. Sales rose to \$472.6 million from \$409.9 million.

May Department Stores, parent of Venture and Caldor, reported a 21 percent profit gain on a 7.5 percent sales rise in the third quarter.

Sales for its discount division, primarily Venture and Caldor, rose 10.2 percent to \$627 million from \$569 million. A Shearson-Lehman Brothers analyst reported, however, that sales rose 6 percent at Venture. Gross margins and operating expense ratio deteriorated, said the analyst, Stacy Ruchlamer, because of stiff competition in the Midwest from new Wal-Marts and the revitalized K mart. Sales at Caldor rose 13.7 percent, Ruchlamer said, but its gross margins also worsened after it cut prices to compete better in its Northeast market.

Discounter Sales Climb in November

(Continued from page 5)
lion from \$1.3 billion. K mart however, had only a 6.6 percent increase to \$2.1 billion from \$2 billion.

Strong gains were recorded by Ross Stores, up 18 percent to 53 million from \$45 million; Ames, up 17.5 percent to \$212.5 million from \$180.9 million; Zayre, up 15.3 percent to \$619 million from \$537 million; TJX (T.J. Maxx and Hit or Miss), up 14.6 percent to \$158.9 million from \$138.6 million; and Jamesway, up 14 percent to \$73.9 million from \$65 million.

Much smaller gains were reported by Caldor, up 8.1 percent to \$136.2 million from \$126 million; Bradlees, up 6 percent to \$213 million \$201 million; Loehmann's, up 5.3 percent to \$31.9 million from \$30.3 million; and Venture, up 1.1 percent to \$114.1 million from \$112.9 million.

Best Products had an 8.2 percent sales decline to \$226.6 million from \$246.9 million, while the discount store division of Federated Department Stores (Gold Circle) was down 4.1 percent to \$89.2 million from \$93 million.

Sales at the major mass merchandise chains showed small gains, with Montgomery Ward the leader with a 7.5 percent increase to \$451 million from \$419.5 million. J.C. Penney was up 4.3 percent to \$1.4 billion from \$1.36 billion, while Sears' merchandising group increased 0.7 percent to \$2.8 billion from \$2.7 billion.

Same store sales gains were reported by Ames, 13 percent; Ross Stores, 10 percent; Caldor, 8.2 percent; Loehmann's, 5.3 percent; Montgomery Ward, 5.2 percent; Jamesway, 5 percent; Wal-Mart, 4 percent; Bradlees, 2 percent; Venture, 1 percent.

Bi-Mart Launches New Prototype

(Continued from page 5)
carry a nearly equal distribution of typical hard lines categories, Bi-Mart has realigned the departments for better traffic flow and sales.

Health & beauty aids and over-the-counter products are now adjacent, instead of being separated by greeting cards, which has been updated with new fixtures. Electronics now includes the sale of prerecorded videotapes, and housewares has been extended toward the rear of the store to move more female customers to the predominately male-oriented back half of the store.

Other layout changes include a break in the back row of gondolas, which Ward said gives Bi-Mart additional end-caps to work with, while making it easier to shop.

Hardware has been given a more do-it-yourself focus, and several other categories have been enlarged, including candy, snacks and cosmetics.

In cosmetics, Bi-Mart actually created an entire new

area, and by tiling the section, the chain stepped away from its normal concrete flooring.

Prior to the new prototype, Bi-Mart's cosmetics were limited to a row of gondolas, which primarily featured just a minimum, basic selection. Now the new cosmetics areas feature not only products by the leading manufacturers, but also implements, fragrances and a service counter.

Cosmetics have also been relocated to the front of the store, in a three-sided area between the checkouts and over-the-counter products. Directly across the front, in a lengthwise aisle from the cosmetics area, are the remaining H&BA products.

Although Bi-Mart increased its cosmetics selection, it is difficult to determine the exact gain because additional merchandise was being stocked for the holiday season, said Dave Zientara, vice president of administration.

While H&BA and OTC are strong sales leaders at Bi-

Mart, Ward said sales distribution is fairly equal among each department.

The new prototype features service counters in cosmetics, photo, hardware and a combined automotive and sporting goods station. Previously, automotive and sporting goods had separate service counters and there was no cosmetics counter.

Exterior pharmacy windows have been eliminated in the new stores; however, Bi-Mart said it will probably leave this additional counter in its existing stores.

While the Bi-Marts have been updated, Zientara said the chain was careful to retain its discount store customer base and image. The membership policy—\$2 for a lifetime family plan—remains intact.

It is the membership policy, along with a broad merchandise mix and low prices, which Ward and Zientara credit for the discounter's strength.

Customer loyalty and strong position in the market—where the chain faces Fred Meyer, K mart and Pay Less NW drug stores—has provided a steady and consistent base in the last year for the Pay 'n Save subsidiary.

Bi-Mart's importance to Pay 'n Save was evident in the parent company's third quarter report, which showed that the Eugene, Ore.-based subsidiary accounted for over one-third of total sales volume. Of Pay 'n Save's \$177 million in quarterly sales, Bi-Mart contributed \$62.3 million, even though, at the close of the quarter, Bi-Mart operated only 34 stores to Pay 'n Save's 100 drug stores.

Bi-Mart opened three units in the fourth quarter and plans to add three stores next year.

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MAKE MONEY
ON OUR
GOOD NAME.**



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12. Engine Cleaner & Degreaser 13. Fuel Injection Cleaner 14. Gas Treatment
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Auto Parts Giant Gears Up To Test Car Care Centers

KANSAS CITY, Mo. — Western Auto Supply is now the second discount auto parts chain to test the hottest wrinkle in the automotive aftermarket, the car care mall.

Later this month, Western Auto will open its first store in a car care mall operated by Car Harbor in North Richland Hills, a suburb of Fort Worth, Tex.

Typically, the four-acre Car Harbor mall will house a state inspection station and specialty shops for: mufflers, tuneups, glass replacement, auto painting, transmission repair, car rentals, car stereos, quick lubes, Japanese car repair and performance parts. Atypically, it will include a discount auto parts store, a Western Auto unit of 8,800 square feet, including four service bays.

Checker/Schuck's/Kragen in Phoenix, Ariz., became the first discount auto parts chain to test the new concept last fall when it opened a store in a Tucson, Ariz., car care mall and opened another store in a second Tucson mall late (Continued on page 62)

ALCO Designs New Formats To Combat Low-Price Rivals

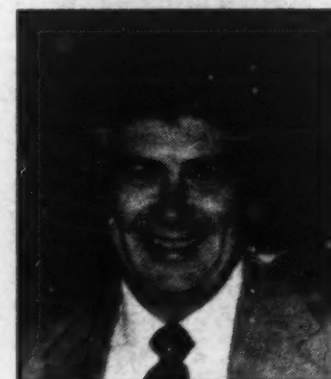
By Mary Ellen Kelly
ABILENE, Kan. — Duck-wall-ALCO is testing two new discount store formats, one of which includes groceries, to meet mounting competition in its 13-state Central U.S. market from everyday low price retailers.

The formats are designed to generate additional traffic and combat chains like Wal-Mart, said Robert Soelter, ALCO president and chief executive officer. Both prototypes debuted in late November.

A single COLA (an acronym

for Cost of Living Adjust-ment) store was opened in Mineral Wells, Tex., 40 miles west of Dallas. The store employs an everyday low price merchandising strategy instead of the promotional tactic used in traditional ALCO discount department stores.

One advantage of the new COLA format is the name. If



Robert Soelter

the chain decides to expand COLA to existing ALCO locations, new store signs would be unnecessary; a simple letter switch of ALCO to COLA is all that would be needed, a company source said.

The second format launched by the roughly 150-unit ALCO chain could be considered a type of mini-hypermarket hybrid. Operated under the ALCO (Continued on page 62)

Dinnerware Served First Martha Stewart Makes Presence Felt at K mart

By Laura Liebeck

TROY, Mich. — Dinnerware is likely to be the first K mart product to bear the signature of Martha Stewart, K mart's new home fashions spokeswoman and consultant.

What the items will look like is still unclear, said Marilyn Gill, divisional merchandise manager for home fashions, because they are currently being developed. Product lines bearing Stewart's signature will likely be slightly upscale but compatible with K mart's price points and shopper demographics.

Gill told DSN that when the first Martha Stewart brand merchandise hits K mart's shelves later this year, it will be in the tabletop category, "probably dinnerware."

Stewart, who became K mart's entertainment and lifestyle spokeswoman and consultant in August, will have a direct impact on the look and merchandise selection in the Home Fash-



Four-color posters of Martha Stewart welcome K mart customers into housewares, where her recipes, entertaining tips and books are now featured in 406 K mart stores. (DSN photo)

ions Division. Such influence contrasts with that of K mart's fashion consultant, Jaclyn Smith, who does not have these responsibilities in apparel.

Currently, Stewart is "making suggestions" on product line additions and subtractions, Gill said, noting that her input is very specific. For example, Stewart has suggested (Continued on page 62)

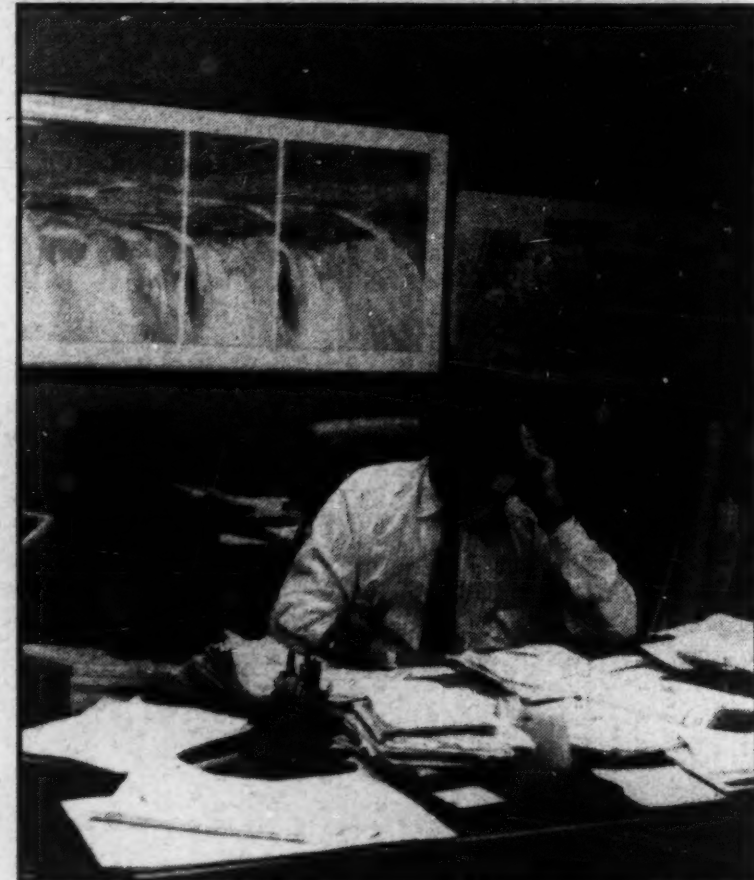
Zinn's Therapy for Troubled Chain 'New Attitude,' Updated POS Key Crazy Eddie Turnaround

By Josephine Fiamingo

EDISON, N.J. — "That's the past... we're moving forward... we have a new attitude and we're just focusing on making Crazy Eddie profitable."

That's the message being hammered home by Elias Zinn, the new president of Crazy Eddie, the 42-store East Coast consumer electronics chain. A visitor entering Zinn's office here at Crazy Eddie headquarters at any time—morning, noon or night—is likely to find him on the phone pitching that theme to vendors, stock analysts, employees and the press.

In an interview with DSN late last month, Zinn, who became president in November after a bitter proxy fight with chain founder Eddie Antar, outlined a number of (Cont'd on page 65)



New Crazy Eddie president Elias Zinn tells vendors, stock analysts and employees that the foundering CE chain has a 'new attitude' and will regain its former luster. (DSN photo)

Senate Introduces Less Restrictive Polygraph Ban Legislation

By Deane Evans

WASHINGTON — New "compromise" legislation to restrict polygraph testing of retail store workers and other industry employees has surfaced in the Senate.

Like similar legislation approved last year in the House, the new Senate bill (S. 1904) would sharply limit the use of

one of the discount industry's most effective weapons in the battle against internal theft.

The measure, introduced by Sens. Edward Kennedy, D-Mass., Orrin Hatch, R-Utah, and 10 other senators from both parties, would not totally outlaw the use of lie detector testing by discounters and other private employers.

Retailers would, for example, be permitted to use polygraph machines for testing workers when investigating "specific losses under limited circumstances and with employee safeguards in place." All other use of lie detectors by employers would be prohibited.

"Under this bill, no employ-

er can use a polygraph for any pre-employment testing of job applicants or random testing of employees," Kennedy explained. "But employers could use the polygraph to investigate specific economic losses by testing employees who had access to the property under investigation and who they have reasonable suspicion to

believe were involved in the incident."

Specifically, the exemption would apply to investigation of "theft, embezzlement, misappropriation, or an act of unlawful industrial espionage or sabotage." Among the employee "safeguards" included in the exemption are require- (Continued on page 62)

Apparel:

Fashion
Down

Home Products:

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BETHESDA MD 20814

CES

page 29

Hard Lines:

Motion Sensor
Switches Click

—page 49

Insights:

Chains Build
With RTA

—page 53

MARKETWATCH

Harmon Succeeds Ames' Founder Gilman

ROCKY HILL, Conn. — James A. Harmon, a longtime member of the board of directors of Ames Department Stores, has been named the company's new chairman, replacing retiring founder/chairman Herbert Gilman, according to published reports. Harmon, who operates the investment banking firm of Wertheim Schroder & Company, will evidently leave the day-to-day management of Ames to president/chief executive officer Peter Hollis. In the past, Harmon has been intimately involved in the financing of the company, and played an active management role at the Ames annual stockholders' meeting last spring.

Alexander's Sells Conn. Store Lease

NEW YORK — Alexander's has sold the lease of its Milford, Conn., store to Westfield Properties, owners of the mall where the discounter's single Connecticut unit is located. Alexander's will have an approximate \$18 million pretax gain from the sale, which will leave the chain with 13 units in and around New York City. The store, which accounts for less than 4 percent of Alexander's \$528.9 million in sales, will be closed around Aug. 1.

Ward Pays \$50M Dividend to Mobil

CHICAGO — Heralding a return to a profitable operation, specialty retailer Montgomery Ward paid its first \$50 million dividend to its parent Mobil Corp. Ward, which has restructured its stores into groupings of specialty units while dropping its catalog and discount store divisions, expects to annually pay \$50 million in dividends to Mobil. Now that Ward is profitable, its parent may be inclined to retain the retailer, rather than spinning it off as planned when Ward was a struggling business.

Best Products Adopts Anti-Takeover Pill

RICHMOND, Va. — Best Products adopted a Shareholder Rights Plan to deter "coercive takeover tactics" and insure all shareholders receive the same price for their stock. The plan is similar to one adopted by about 500 other firms and isn't meant to stop a friendly takeover. The cataloger said it wasn't aware of any takeover move nor was the plan adopted in response to any such effort.

Present Co. Opens 3 New Showrooms

ROCHESTER, N.Y. — Cataloger Present Co. opened three stores late last year in Jamestown, Schenectady and Ithaca, N.Y., to reach a total of 21. The expansion came shortly after Present was acquired by Butler Capital Corp., a privately-held New York investment banking firm, for \$23 million. PCI Holding, a Butler Capital affiliate, paid \$10 a share for all of Present's outstanding stock.

Shopko Begins Construction on New Store

GREEN BAY, Wis. — Full-line discounter Shopko Stores will begin construction of its third La Crosse, Wis., area store in the spring of 1988. The projected 91,000-square-foot store is scheduled to open in the fall with about 250 full- and part-time employees. Shopko—a subsidiary of Super Valu Stores—currently operates 75 stores and anticipates opening 12 stores in 1988.

Clover Breaking Ground for 22nd Store

PHILADELPHIA — Clover plans to open its 22nd store in the late fall of 1988. The new site will be in Chester County, Pa. Ground breaking is to take place this month.

QVC Unveils Points-for-Merchandise

WEST CHESTER, Pa. — Teleshopper QVC this month mailed out application forms for company-sponsored MasterCard and Visa credit cards to over 500,000 customers. Consumers can use the cards to buy goods from any retailer, not just QVC, receiving bonus points which can be used for special teleshopper merchandise.

Price Club Offers Additional Cards, Services to Longtime Biz Members

SAN DIEGO — The Price Club continues to augment its services to small businesses to differentiate the membership warehouse from competing, more consumer-oriented wholesale clubs.

The latest moves are:

- Offering businessmen who have been members for at least two years two additional individual membership cards at \$25 each.
- Allowing qualifying professionals and contractors to obtain three cards, one primary \$25 business card and two \$10 individual cards.
- In Arizona, assigning a "tax control number" to business members licensed to resell goods to speed up processing of their purchases at the checkout counter.

The two additional individual cards offered to business members cost the same as Gold Star cards, which are the cards available to group members. The Price Club, in effect, has enlarged the group member classification to now include associates of business members who previously weren't able to get a card.

Trade observers believe that Price Club expanded its potential membership base to counter other wholesale clubs which have more liberal membership requirements and offer cards to a larger pool of

members. Additionally, Costco, PACE, Price Savers and Buyers Club during the past few years have jumped into the Southern California markets, once Price Club's exclusive stomping ground.

Commenting on this view, a Price Club spokesman said that if a membership warehouse offers business cards to everyone, it isn't a wholesale club but an open-door store.

Price Club offered the additional cards to longtime business members, he added, "as another benefit and a way to thank these members." These businessmen can now get six cards, the two additional \$25 individual cards plus the four cards that are available to all businesses when they sign up: the primary \$25 business card, two individual cards, which still cost \$10 each, and one \$25 company card. The latter can be used by anyone from the firm, with payment only by a company check or draft to insure that the transaction is just for goods for the business.

The Price Club clarified its classification of licensed contractors and qualifying professions and now considers anyone in this category as a small businessman, eligible for business cards. The spokesman explained that many professionals are in group practices

and the Price Club has previously viewed only the group practice as a business, eligible to obtain four cards, regardless of how many professionals were in that practice.

The professionals—attorneys, CPAs, doctors, dentists, architects, engineers, pharmacists, psychologists and psychiatrists—are in group practices for tax purposes, even though they are actually individual businesses, the spokesman added.

In Arizona, members who are retailers were assigned an eight-digit tax control number that identifies them as resellers. They use this number on the state-required resale card they fill out at the checkout, thereby avoiding the need to fill in separate, and much longer, city and state Transaction Privilege License numbers.

The Price Club's computer uses the tax control number to obtain a retailer's previously stored resale license information. The new system should speed up a merchant's purchase of goods for resale, the spokesman explained.

The new program doesn't change the legal requirement that only goods purchased for resale are exempt from taxes, with items a business member bought for business or personal use still subject to taxes, he added.

Apparel Sales to Be Flat in '88

Off-pricers Take Bigger Bite of Pie

By Kenneth M. Chanko

NEW YORK — Retail apparel sales in 1988 are expected to be flat, with only the lower end of the retail spectrum expected to show any real growth this year.

Apparel retailers will only be able to prosper this year if "value can be reinforced . . . by returning to the verities of competitive pricing, quality appearance, improved performance, fresh styling and timely service," according to the recent "Soft Goods Outlook for 1988" report by Kurt Salmon Associates.

The just-published report from the New York-based retail, manufacturing and textile management consultants, paints a somewhat bleak apparel retail picture for 1988.

"Under the best of circumstances, present inventory buildups and slow replenishment will hamper business in the first half of [1988]."

Yet the report reveals that the first nine months of 1987 saw a shift in consumer dollar expenditures for apparel away from department and specialty stores and toward such operations as off-pricers, warehouse clubs, mail order outfits and factory outlets. And the report indicates that such a shift will continue through 1988.

As for apparel business at retail in general, the report reads in part, "The 'wealth effect' that supported four years of trading up is gone, along with the bull market that helped create it . . . Any real

gains [in 1988] will have to come at the expense of competitors."

The report also says "retail sales of soft goods in current dollars should end 1987 6 percent ahead of 1986, with at least 4 percent due to higher prices . . . 1988 soft goods sales at retail will probably gain only 4 percent to 5 percent—for no real gain at all."

For the first nine months of last year, the retail segment the report called "other"—which includes off-pricers, warehouse clubs, factory outlets, flea markets and street vendors, among others—increased its percentage share of consumer dollar expenditures on apparel to 13.7 percent from 11.3 percent in 1986.

(Continued on page 27)

Mars Closes Upscale Discount Store

NORTH DIGHTON, Mass. — Mars Stores, operators of 20 Mars and two Gaynes Discount Department Stores, closed its Gaynes store in Fishkill, N.Y., on Dec. 31. The other Gaynes in South Burlington, Vt., will remain open, said sources.

Mars describes Gaynes as an upscale discount store. The Vermont unit was acquired in February 1985; the Fishkill store opened in November of that year.

The lease on the Fishkill store, which is owned by the J.W. Mays Co., Brooklyn, N.Y., and is located in a shopping mall, expired on the last day of the year, according to

store personnel and a spokeswoman for Dutchess Mall.

Local radio commercials announced the store closing in early December. The spots said Gaynes had lost its lease and all store merchandise was marked down 25 percent.

The Gaynes division had been a drag on the company's

profits all last year. In a third quarter report dated Sept. 15, 1987, Mars president Paul Kwasnick reported that sales at the Gaynes division were a "disappointing 9.5 percent below last year" and the stores "accounted for more than half of the company's operating loss for the second quarter."

HSN Replaces Sky Merchant Program

CLEARWATER, Fla. — The Home Shopping Network has replaced Sky Merchant as the teleshopping show on the 1.5 million-subscriber Jones Intercable cable system.

Jones had produced Sky Merchant as the exclusive vid-

eo retailing program on its network. HSN 1 goes to about 1 million Jones subscribers, while HSN 2 goes to another 500,000 Jones cable households who are in markets where HSN has broadcast TV stations.

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Discounters Offer More Perks to All Levels of Management

NEW YORK — Substantially more discount executives—down to the store level—are enjoying pension plans, health-related benefits such as dental and optical insurance, and family-related perks such as scholarships and grants for their children than they did two years ago.

That's the conclusion drawn from the "1987 Mass Retailers' Executive Perquisite Report" of the International Mass Retail Association.

In its survey, conducted every two years, of personnel policies of member retailers, IMRA asked which of 52 different benefits they offer to 13 levels of management, ranging from chief executive officers to assistant store managers. Of the IMRA members surveyed, 84 percent responded. All replies were treated confidentially and survey responses were anonymous.

IMRA, whose membership directory shows 181 retail members, is comprised of the former NMRI, which merged at the end of 1986 with the Association of General Merchandise Chains. At the time the merger was approved in October 1986, the NMRI counted 118 members, while the AGMC tallied 40 members.

Accordingly, the results reflected in the 1987 perquisites survey probably include responses from former AGMC members, which wouldn't have been queried for the 1985 survey of the old NMRI.

Among the trends uncovered, the IMRA 1987 survey found that the percentage of its members offering pension plans has increased. For example, 81 percent offer pension plans to general merchandise managers compared to 51 percent in the 1985 survey. For chief executive officers, 70 percent now offer pensions, up from 51 percent two years ago. On the store level, 72 percent offer them to managers, an increase from 51 percent.

In the health benefit category, an increased number of chains offer medical benefits of all kinds, not only in traditional hospitalization plans but also in the area of dental, optical and prescription drug plans and physical exams for all levels of management.

Another perquisite category to show growth over the past two years is family benefits, such as scholarships and

Executive Benefits Sample										
Percent of Chains that Offer Benefit										
Benefit	Managerial Level									
	CEO		Top Merchandise Manager		Gen'l Merchandise Manager		Buyer		Store Manager	
	'86	'85	'86	'85	'86	'85	'86	'85	'86	'85
Paid Family Medical Coverage	74%	70%	69%	53%	60%	53%	53%	47%	33%	38%
Paid Dental	58	33	47	17	44	16	40	12	46	11
Prescriptions	55	55	69	35	67	35	68	30	77	33
Optical Plan	33	20	30	12	28	12	21	12	25	9
Interest-Free Loans	18	10	12	5	9	2	12	2	12	2
Stock Purchase Plans	25	33	29	18	27	16	31	12	31	20
Deferred Pay	53	18	46	18	41	6	27	4	24	4
Merchandise Discounts	88	70	85	73	83	70	88	79	86	68
Scholarships Grants, Dependents	31	5	29	9	31	6	31	0	31	5
Pension Plan	70	51	81	51	81	51	77	51	72	51

Source: 1987 Mass Retailers' Executive Perquisite Report, International Mass Retail Association

education grants for children of executives, merchandise discounts, tuition reimbursement, and legal, tax and financial counseling.

The accompanying chart illustrates a sampling of 10 benefits that have experienced the greatest growth in the number of companies that offer them on six representative managerial levels from ceo to gmm to store manager.

On the downside, many companies have dropped Employee Stock Ownership Plans. Only 13 percent of those surveyed offer them, compared to 31 percent in the 1985 survey. (The 1986 Tax Act took away the deduction for company contributions, which prompted both K mart and Target parent Dayton Hudson Corp. to drop them.)

As an offset, more companies are offering stock options, down to the assistant manager level. Of the companies surveyed, 33 percent offer stock options to store managers, for example, up from 9 percent two years ago.

In addition, more firms now offer profit sharing down to the store level—48 percent for assistant store managers,

more than double the 22 percent of two years ago.

Deferred compensation also is growing in popularity, even down to store level. The survey found that almost a quarter of companies offer it to their store managers, compared to 4 percent in 1985.

The 1987 survey found that 32 percent offer post-retirement benefits, up from 18 percent in 1985. These range from lifetime merchandise discounts and health benefits coverage to free travel to place of retirement.

More companies are sweetening their vacation policies, the survey found, with many offering four and five weeks of paid time off and requiring fewer years of employment to qualify.

Of total respondents, 82 percent offer four weeks and 33 percent offer five weeks. The survey failed to provide comparative percentages from 1985, but IMRA president Richard Hersch said in his introduction to the report that the totals are up from two years ago and employees need to work fewer years to qualify for the maximum.

For four weeks vacation,

before getting four weeks, compared to 18 percent.

To get five weeks off, managers at 30 percent of the companies must work 20 years, up from 10 percent, while 21 percent of the firms require 25 years, up from 10 percent, and 18 percent require only 15 years, up from 4 percent.

An increasing number of companies offer six weeks off, 18 percent, compared to 14 percent in 1985. The qualifying period varies.

For managers who use personal cars on company business, the reimbursement rate averages 22.41 cents per mile.

Providing a company car for personal use is on the upswing. For chief executive officers, 86 percent provide this perk, compared to 72 percent in 1985. At the merchandising level, 40 percent of companies offer them to general merchandise managers, compared to 17 percent in 1985.

For travel expenses, 16 percent said they set no limits. For 34 percent, the expenses must be "reasonable" for the city visited. For the remaining 50 percent, meal expense reimbursements averaged: breakfast, \$9.35; lunch, \$13.46; and dinner, \$33.05.

The copyrighted survey, the sixth one conducted, is available to members for \$38 and to non-members for \$48. Write: IMRA, 570 Seventh Ave., New York, N.Y. 10018, or call (212) 354-6600.

Dahlkemper's Promotes Five, Creates New VP Positions



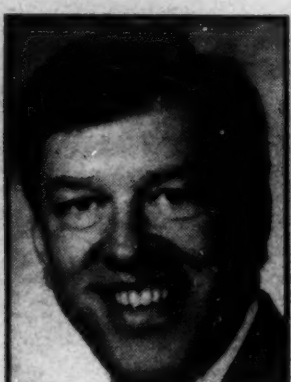
J.B. Dahlkemper



E.H. Dahlkemper



Bergdahl



O'Keefe



Razanauskas

ERIE, Pa. — Dahlkemper's has promoted five executives and separated the top merchandising position into vice presidencies for jewelry and non-jewelry goods as part of the cataloger's three-year strategic growth plan.

Founder and president Joseph B. Dahlkemper has become board chairman and

chief executive officer. He will continue to advise the company on strategic planning, acquisitions, expansion, finance and appointment of officers, along with spending time in the chain's nine showrooms.

Executive vice president Edward H. Dahlkemper has been named president and chief operating officer. Thom-

as A. Bergdahl, formerly director of jewelry merchandising, was promoted to vp of jewelry merchandising, while David R. O'Keefe was named vp of merchandising, responsible for all non-jewelry marketing. Mary Ellen Razanauskas was promoted to vp of human resources from director of human resources.

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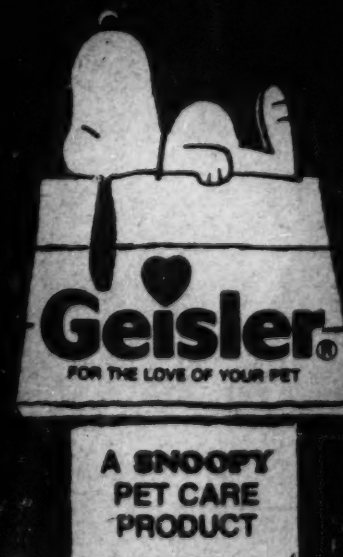
Discount Store News 10-12-87*



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Off-Pricers, Warehouse Clubs Take Bigger Bite of Apparel Pie

(Continued from page 2)

Chains, such as Sears and J.C. Penney, and the full-line discounters saw their share drop by less than 1 percent to 40 percent, and department and specialty stores' share of consumer expenditures dropped by 1.7 percent to 46.3 percent.

Men's wear, with a 3 percent increase in the "other" segment, recorded the biggest jump, more than women's and children's wear.

For apparel in 1988, Kurt Salmon predicts that the change in unit consumption at retail will range from a 1 per-

cent drop to a 1 percent gain, depending on holiday results.

If there is no gain in December apparel sales over last year, despite heavy promotions, bulging year-end inventories will spur deeper markdowns this month, further dampening spring orders, and will eventually lead to a 1 percent drop in total apparel unit consumption in 1988.

If, however, December apparel sales are spurred by the many promotions, leaner inventories will lead to normal buying for the year and should prompt a 1 percent unit consumption increase.

The report says, "1988 offers flat or slow growth to retailers. Once inventories are clean, more value-oriented planning can turn next year into a plus and recover lost profits."

The report also notes that "for the first time in decades, inflation in soft goods has led inflation in the general economy." The report cited higher priced imports, aggravated by a weakening dollar, and higher materials costs as reasons for higher prices.

Due to various factors, the report says that "import growth should decline to around 5 percent in units [in 1988], while their value increases 12 percent in dollars."

A continuing shift to more domestic sourcing is expected this year among most retailers, the report predicts.

Apparel price increases should moderate this year because of more competition among fabric suppliers and "a very nervous apparel market," according to the report.

A manufacturer survey conducted by KSA and included in the report revealed that man-

ufacturers, by a 2-1 majority, expect a stronger casual styling to be apparent this year. The challenge will be to keep such categories as fleece activewear and fashion jeans—most particularly acid-wash—fresh-looking.

Active sportswear, according to the report, should be the biggest apparel growth category for a fourth straight year, but there will be a shift away from oversized loose styling—which the report said is "on its way out"—and toward closer-fitting stretch looks, like the bike pant.

The report also added that darker shades of denim will replace lighter shades, short skirts (particularly in denim) for the younger woman will continue to spread beyond the country's "major fashion centers," and dresses, featuring softer and curvier shapes, and more exotic sleepwear and daywear will be healthy categories this year.

Sweaters, for either men or women, don't fare well in the report, but accessories, since "they offer an inexpensive way to vary outfits without

buying a new one," should have another good year in 1988.

The KSA report calls for a 4 percent unit consumption gain in hosiery, citing the category's inherent low cost nature and the current new fashions emphasizing legs. Pantyhose—more than double other sheer hosiery—is expected to decline by 1 percent in units, but the loss will be more than offset, according to the report, by gains in knee-highs and thigh-length hose.

The report says, "More colors, both bold and subdued patterns, and special end-uses for socks, should help these categories maintain their momentum."

The report also adds that hosiery imports have tripled in the last three years and notes that imports now are 5 percent of the market.

In its footwear section, the report noted that low-price retail channels such as discounters and one-price shoe stores continue to grow, and that this low-price segment now accounts for almost one out of every three pairs sold.

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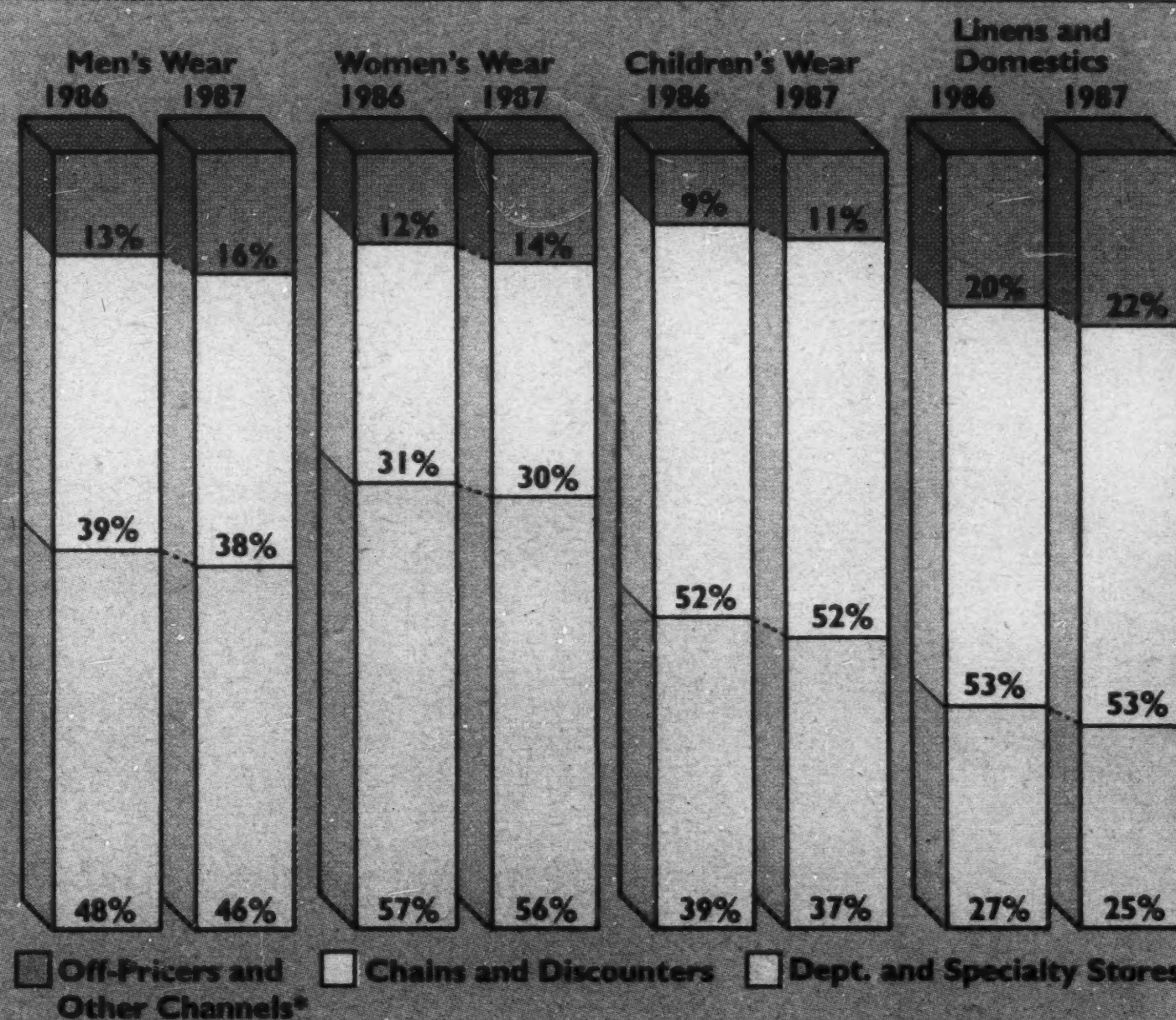
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Off-Pricers Nibble Away at Soft Goods Market

Percent of Expenditures by Retailer Type: Jan. - Sept., 1986 vs. 1987



Source: Kurt Salmon Associates/NPD Purchase Panel

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